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# ESSAYS IN LIBERALISM

*Being the Lectures and Papers which were  
delivered at the Liberal Summer School  
at Oxford, 1922*

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## PREFACE

THE papers contained in this volume are summaries—in some cases, owing to the defectiveness of the reports, very much abridged summaries—of a series of discourses delivered at the Liberal Summer School at Oxford in the first ten days of August, 1922. In two cases (“The State and Industry” and “The Machinery of Government”) two lectures have been condensed into a single paper.

The Summer School was not arranged by any of the official organisations of the Liberal party, nor was any part of its expenses paid out of party funds. It was the outcome of a spontaneous movement among a number of men and women who, believing that Liberalism is beyond all other political creeds dependent upon the free discussion of ideas, came to the conclusion that it was desirable to create a platform upon which such discussion could be carried on, in a manner quite different from what is usual, or indeed practicable, at ordinary official party gatherings. From the first the movement received cordial support and encouragement from the leaders of the party, who were more than content that a movement so



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essentially Liberal in character should be carried on quite independently of any official control. The meetings were inaugurated by an address by Mr. Asquith, and wound up by a valediction from Lord Grey, while nearly all the recognised leaders of the party presided at one or more of the meetings, or willingly consented to give lectures. In short, while wholly unofficial, the meetings drew together all that is most vital in modern Liberalism.

In some degree the Summer School represented a new departure in political discussion. Most of the lectures were delivered, not by active politicians, but by scholars and experts whose distinction has been won in other fields than practical politics. One or two of the speakers were, indeed, not even professed Liberals. They were invited to speak because it was known that on their subjects they would express the true mind of modern Liberalism. Whatever Lord Robert Cecil, for example, may call himself, Liberals at any rate recognise that on most subjects he expresses their convictions.

As a glance at the list of contents will show, the papers cover almost the whole range of political interest, foreign, domestic, and imperial, but the greatest emphasis is laid upon the problems of economic and industrial organisation. Yet, since it is impossible to survey the universe in ten days, there are large and important themes which remain

unexplored, while many subjects of vital significance are but lightly touched upon. Perhaps the most notable of these omissions is that of any treatment of local government, and of the immensely important subjects—education, public health, housing, and the like—for which local authorities are primarily held responsible. These subjects are held over for fuller treatment in later schools ; and for that reason two papers—one on local government and one on education—which were delivered at Oxford have not been included in the present volume.

It must be obvious, from what has been said above, that these papers make no pretence to define what may be called an official programme or policy for the Liberal party. It was with study rather than with programme-making that the School was concerned, and its aim was the stimulation of free inquiry rather than the formulation of dogmas. Every speaker was, and is, responsible for the views expressed in his paper, though not for the form which the abridged report of it has assumed ; and there are doubtless passages in this book which would not win the assent of all Liberals, for Liberalism has always encouraged and welcomed varieties of opinion.

Nevertheless, taken as a whole, these papers do fairly represent the outlook and temper of modern

Liberalism. And the candid reader will not fail to recognise in them a certain unity of tone and temper, in spite of the diversity of their authorship and subject-matter. Whether the subject is foreign politics, or imperial problems, or government, or industry, the same temper shows itself—a belief in freedom rather than in regimentation; an earnest desire to substitute law for force; a belief in persuasion rather than in compulsion as the best mode of solving difficult problems; an eagerness to establish organised methods of discussion and co-operation as the best solvent of strife, in international relations and in industrial affairs quite as much as in the realm of national politics, to which these methods have long since been applied.

That is the spirit of modern Liberalism, which gives unity to the diversity of this little volume. As has often been said, Liberalism is an attitude of mind rather than a body of definitely formulated doctrine. It does not claim to know of any formula which will guide us out of all our troubles, or of any panacea that will cure every social ill. It recognises that we are surrounded in every field of social and political life by infinitely difficult problems for which there is no easy solution. It puts its trust in the honest inquiry and thought of free men who take their civic responsibilities seriously.

# CONTENTS

	PAGE
Preface	V
The League of Nations and the Rehabilitation of Europe	<i>Rt. Hon. Lord Robert Cecil</i> I
<u>The Balance of Power</u>	<i>Professor A. F. Pollard</i> 19
<u>International Disarma- ment</u>	<i>Sir Frederick Maurice</i> 37
Reparations and Inter- Allied Debt	<i>John Maynard Keynes</i> 51
The Outlook for National Finance	<i>Sir Josiah Stamp</i> 59
<u>Free Trade</u>	<i>Rt. Hon. J. M. Robertson</i> 74
India	<i>Sir Hamilton Grant</i> 92
Egypt	<i>J. A. Spender</i> 111
<u>The Machinery of Govern- ment</u>	<i>Ramsay Muir</i> 120
The State and Industry	<i>W. T. Layton</i> 145
The Regulation of Wages	<i>Professor L. T. Hobhouse</i> 165
<u>Unemployment</u>	<i>H. D. Henderson</i> 176
The Problem of the Mines	<i>Arnold D. McNair</i> 194
The Land Question	<i>A. S. Comyns Carr</i> 212
<u>Agricultural Questions</u>	<i>Rt. Hon. F. D. Acland</i> 227



# THE LEAGUE OF NATIONS

## AND THE

# REHABILITATION OF EUROPE

BY THE RT. HON. LORD ROBERT CECIL

K.C., M.P., Assistant Secretary of State for Foreign Affairs, 1918. Minister of Blockade, 1916-1918. Representative of Union of South Africa at Assembly of League of Nations.

LORD ROBERT CECIL said:—I ought to explain that I am here rather by accident. The speaker who was to have addressed you was my great personal friend, Professor Gilbert Murray, and you have greatly suffered because he is not present. He is prevented by being at Geneva on a matter connected with the League, and he suggested that I might take his place. I was very glad to do so, for, let me say quite frankly, I am ready to advocate the League of Nations before any assembly, certainly not least an assembly of Liberals. But not only an assembly of Liberals—I should be ready to advocate it even before an assembly of "Die-Hards."

Your chairman has said, and said truly, that the League is not a party question. We welcome, we are anxious for support from every one. We have seen in another great country the very grave danger that may accrue to the cause of the League if it unhappily becomes identified with party

politics. We welcome support, yes, I will say even from the Prime Minister; indeed no one will reject the support of the Prime Minister of England for any cause. I am bound to admit when I first read the speech to which reference has already been made, I was a little reminded of the celebrated letter of Dr. Johnson to Lord Chesterfield. Lord Chesterfield only began to recognise the value of Johnson's works when Johnson had already succeeded, and in one of the bitter phrases Dr. Johnson then used he said, "Is not a patron one who looks with unconcern on a man struggling for life in the water, and when he has reached ground incommodes him with help?" That was a passing phase in my mind, and I am a little ashamed of it, because, after all, we cannot say the League has reached ground as yet. We need and are grateful for the help of any one who will genuinely come to its assistance. I hope we may look not only for words, but for deeds. The League needs all the support it can get in the very perilous and menacing times which are before us. I was glad to note that the Government has announced—it is one of the great test questions—that not only is it in favour of the entry of Germany into the League, but it would support the election of Germany to the Council of the League. That is an earnest of what we trust may be a real League policy from the Government of this country. And yet, though I have thought it right to emphasise the non-party aspect of this question, I am conscious, and I am sure all of you are, there are two ways in which the League is regarded. It is not only that, as your chairman



would say, some people have more faith than others, but there is really a distinct attitude of mind adopted by some supporters of the League from that adopted by others.

### THE TWO VIEWS OF THE LEAGUE

There is what I may call the empirical view of the League. There are those of us in this country, and indeed all over the world, who, profoundly impressed with the horrors of war, hating war from the bottom of their hearts as an evil thing—a company which must include, as far as I can see, all Christian men and women—these people, impressed with the horrors of war, look about for some means of keeping it away, some safeguard against its renewal. And they say: “We have tried everything else, we have tried the doctrine of the preparation for war as a great safeguard of peace; we have tried the doctrine of the Balance of Power; we have tried the doctrine of making one State or group of States so powerful that it can enforce its will on the rest of the world. We have tried all these expedients, and we are driven to the conclusion that they lead not to peace, but to war. Is there anything else?” And then they come quite legitimately to the League as their last hope of preserving the peace of the world. I was talking to a distinguished Frenchman the other day, and that was his attitude. It is the attitude of a great many people. In my judgment it is quite sound as far as it goes. But it is not inspiring. It depends

in the last resort merely on a frank appeal to the terrors of mankind.

Against that view you may set the more fundamental way of approaching this question. You may say if you are to have peace in the world it is not enough merely to provide safeguards against war. You must aim at creating a new international spirit, a new spirit in international affairs; you must build from the very foundations. That is the positive as opposed to the negative way of approaching this question. It is not enough to cast out the war spirit and leave its habitation swept and garnished. You have to replace the war spirit by a spirit of international co-operation. And that is the way of regarding this great movement which some people think can be disposed of by describing it as idealism—a favourite term of abuse, I learn, now, but which seems to me not only good politics and good morality, but common sense as well.

#### THE NEGATIVE AND THE POSITIVE

These two points of view do represent undoubtedly fundamental differences of political attitude, and you will find that the two sets of advocates or supporters of the League whom I have tried to describe, will inevitably regard with different emphasis the provisions of the Covenant, and even the achievements of the League. For if you read the Covenant you will find two sets of provisions in that document. It does recognise the two schools, as it were, that I have been describing. It has a set of provisions

which deal with the enforcement, the safeguarding of peace, and a set of provisions which deal with the building up of international co-operation. You will notice the two sets of provisions. There are those aiming directly at the settlement of disputes without war. This is the central part of the League. It is the first thing before you can hope to do anything else. Before you can begin to build up your international spirit you must get rid as far as you can of the actual menace of war ; and in that sense this is the central part of the Covenant. But, in my view, the most enduring and perhaps the most important part is that set of provisions which cluster round the group of articles beginning with Article 10 perhaps, certainly Article 12, and going on to Article 17—the group which says in effect that before nations submit their disputes to the arbitrament of war they are bound to try every other means of settling their differences. It lays down first the principle that every dispute should come to some kind of arbitration, either by the new Court of International Justice—one of the great achievements of the League—or discussion before a specially constituted Arbitration Court, or failing both, then discussion before the Council of the League ; and Articles 15 and 16 provide that until that discussion has taken place, and until adequate time has been allowed for the public opinion of the world to operate on the disputants as the result of that examination, no war is to take place, and if any war takes place the aggressor is to be regarded as perhaps what may be called an international outlaw.

Before you begin to build you must have freedom from actual war, and the provisions have been effective. They are not merely theoretic. I am not sure whether it is generally recognised, even in so instructed an assembly as this, how successful these provisions have actually been in practice. Let me give you briefly two illustrations: the dispute between Sweden and Finland, and the much more urgent case of the dispute between Serbia and Albania. In the first case you had a dispute about the possession of certain islands in the Baltic. It was boiling up to be a serious danger to the peace of the world. It was referred to the League for discussion. It was before the existence of the International Court. A special tribunal was constituted. The matter was threshed out with great elaboration; a decision was come to which, it is interesting to observe, was a decision against the stronger of the two parties. It was accepted, not with enthusiasm by the party that lost, but with great loyalty. It has been adopted, worked out in its details by other organs of the League, and as far as one can tell, as far as it is safe to prophesy about anything, it has absolutely closed that dispute, and the two countries are living in a greater degree of amity than existed before the dispute became acute.

But the Albanian case is stronger. You had a very striking case: a small country only just struggling into international existence. Albania had only just been created before the war as an independent State, and during the war its independence had in effect vanished. The first thing that

happened was its application for membership of the League. That was granted, and thereby Albania came into existence really for the first time as an independent State. Then came its effort to secure the boundaries to which it was entitled, which had been provisionally awarded to it before the war. While that dispute was still unsettled, its neighbour, following some rather disastrous examples given by greater people in Europe, thought to solve the question by seizing even more of the land of Albania than it already occupied. Thereupon the Articles of the Covenant were brought into operation. The Council was hastily summoned within a few days. It was known that this country was prepared to advocate before that Council the adoption of the coercive measures described in Article 16. The Council met, and the aggressive State immediately recognised that as a member of the League it had no course open but to comply with its obligations, and that as a prudent State it dared not face the danger which would be caused to it by the operation of Article 16. Immediately, before the dispute had actually been developed, before the Council, the Serbians announced that they were prepared to withdraw from Albanian territory, and gave orders to their troops to retire beyond the boundary. Let us recognise that this decision having been come to, it was carried out with absolute loyalty and completeness. The troops withdrew. The territory was restored to Albania without a hitch. No ill-feeling remains behind, and the next thing we hear is that a commercial treaty is entered into between the two

States, so that they can live in peace and amity together.

#### THE SPIRIT OF THE LEAGUE

I want to emphasise one point about these two cases. It is not so much that the coercive powers provided in the Covenant were effectively used. In Sweden and Finland they never came into the question at all, and in the other case there was merely a suggestion of their operation. What really brought about a settlement of these two disputes was that the countries concerned really desired peace, and were really anxious to comply with their obligations as members of the League of Nations. That is the essential thing—the League spirit. And if you want to see how essential it is you have to compare another international incident: the dispute between Poland and Lithuania, where the League spirit was conspicuous by its absence. There you had a dispute of the same character. But ultimately you did secure this: that from the date of the intervention of the League till the present day—about two years—there has been no fighting; actual hostilities were put an end to. Though that is in itself an immensely satisfactory result, and an essential preliminary for all future international progress, yet one must add that the dispute still continues, and there is much recrimination and bitterness between the two countries. The reason why only partial success has been attained is because one must say Poland has shown a miserable lack of the true spirit of the League.

Let me turn to the other parts of the Covenant—those which aim directly at building up international co-operation. I am not sure that it is always sufficiently realised that that is not only an implicit but also an explicit object of the Covenant—that it is the main purpose for which the League exists. International co-operation are the very first words of the preamble to the Covenant. This is the fundamental idea I cannot insist on too strongly, because it does really go down to the very foundations of my whole creed in political matters. International co-operation, class co-operation, individual co-operation—that is the essential spirit if we are to solve the difficulties before us. Let me remind you of the two instances of the action of the League in dealing with the threat of epidemics to Europe. A conference was called at Washington to consider what could be done to save Europe from the danger of epidemics coming from the East. What is interesting is that in that conference you had present not only members of the League considering and devising means for the safety of Europe, but you had representatives of Germany and Russia—a splendid example of the promotion of international co-operation extending even beyond the limits of the membership of the League. Admirable work was done. All countries co-operated quite frankly and willingly under the presidency of a distinguished Polish scientist.

That is one example of what we mean by international co-operation. Perhaps an even more striking example was the great work of Dr. Nansen in liberating the prisoners of war who were in

Russia. He was entrusted with the work on behalf of the League. The prisoners of war belonged to all nationalities, including our enemies in the late war. He accomplished his work because he went about it in the true spirit of the League, merely anxious to promote the welfare of all, leaving aside all prejudices whether arising from the war or from any other cause. Dr. Nansen is in my judgment the incarnation of the spirit of the League, and his work, immensely successful, restored to their homes some 350,000 persons, and he did it for less money than he originally estimated it would cost.

Do not put me down as a facile optimist in this matter. In the matter of international co-operation we have a long way to go before we reach our goal, and we can already see one or two serious failures. I deeply deplore that last year the League found itself unable, through the instructions given by the Governments which composed it, to do anything effective on behalf of the famine in Russia. It was a most deplorable failure for the League, and still more deplorable for this country. It was a great opportunity for us to show that we really did mean to be actuated by a new spirit in international affairs, and that we did recognise that the welfare of all human beings was part—if you like to put it so—of our national interests. We failed to make that recognition. We have been trying feebly and unsuccessfully to repair that great mistake ever since, and for my part I do not believe there is any hope of a solution of the Russian difficulty until we absolutely acknowledge the failure we



then made, and begin even at this late hour to retrace the false step we then took.

I could give other instances of failure, but I do not wish to depress you, and there are cheering things we may look at. It is a matter of great relief and congratulation that the policy of mandates really does appear to be becoming effective, and one of the greatest activities of the League. Nothing is better than the conception which the mandate clause embodies, that the old ideas of conquest are to be put aside; that you are not to allow nations to go out and take chunks of territory for themselves; that they must hold new territory not for themselves, but on behalf of and for the benefit of mankind at large. This is at the bottom of mandates. Since I am speaking on behalf of Professor Murray, I ought to remind you of the provisions of the Covenant for the protection of racial linguistic minorities, and minorities in different countries. It has not yet become an effective part of the machinery of the League, but I look forward to the time when we shall have established the doctrine that all racial minorities are entitled to be treated on a footing absolutely equal with other nationals of the country in which they live. If that could be established, one of the great difficulties in the way of international co-operation in the spirit of peace will be removed.

#### THE MISTAKE OF VERSAILLES

These are the two aspects I wanted to bring before you. If we are to get down to the root of

the matter ; if we are to uproot the old jungle theory of international relations, we must recognise that the chief danger and difficulty before us is what may be described as excessive nationalism. We have to recognise in this and other countries that a mere belief in narrow national interests will never really take you anywhere. You must recognise that humanity can only exist and prosper as a whole, and that you cannot separate the nation in which you live, and say you will work for its prosperity and welfare alone, without considering that its prosperity and welfare depend on that of others. And the differences on that point go right through a great deal of the political thought of the day.

Take the question of reparations. I am not going to discuss in detail what ought to be done in that difficult and vexed question, but I want to call your attention to the mistake which was originally made, and which we have never yet been able to retrieve. The fundamental error of Versailles was the failure to recognise that even in dealing with a conquered enemy you can only successfully proceed by co-operation. That was the mistake—the idea that the victorious Powers could impose their will without regard to the feelings and desires and national sentiment of their enemy, even though he was beaten. For the first time in the history of peace conferences, the vanquished Power was not allowed to take part in any real discussion of the terms of the treaty. The attitude adopted was, “These are our terms, take or leave them, but you will get nothing else.” No attempt

was made to appreciate, or even investigate the view put forward by the Germans on that occasion. And last, but not least, they were most unfortunately excluded from membership of the League at that time. I felt profoundly indignant with the Germans and their conduct of the war. I still believe it was due almost exclusively to the German policy and the policy of their rulers that the war took place, and that it was reasonable and right to feel profound indignation, and to desire that international misdeeds of that character should be adequately punished. But what was wrong was to think that you could as a matter of practice or of international ethics try to impose by main force a series of provisions without regard to the consent or dissent of the country on which you were trying to impose them. That is part of the heresy that force counts for everything. I wish some learned person in Oxford or elsewhere would write an essay to show how little force has been able to achieve in the world. And the curious and the really remarkable thing is that it was this heresy which brought Germany herself to grief. It is because of the false and immoral belief in the all-powerfulness of force that Germany has fallen, and yet those opposed to Germany, though they conquered her, adopted only too much of her moral code.

It was because the Allies really adopted the doctrine of the mailed fist that we are now suffering from the terrible economic difficulties and dangers which surround us. I venture to insist on that now, because there are a large number of people

who have not abandoned that view. There are still a number of people who think the real failure that has been committed is not that we went wrong, as I think, in our negotiations at Versailles, but that we have not exerted enough force, and that the remedy for the present situation is more threats of force. I am sure it won't answer. I want to say that that doctrine is just as pernicious when applied to France as when applied to Germany. You have made an agreement. You have signed and ratified a treaty; you are internationally bound by that treaty. It is no use turning round and with a new incarnation of the policy of the mailed fist threatening one of your co-signatories that they are bound to abandon the rights which you wrongly and foolishly gave to them under that treaty.

I am against a policy based on force as applied to Germany. I am equally opposed to a policy based on force as applied to France. If we really understand the creed for which we stand, we must aim at co-operation all round. If we have made a mistake we must pay for it. If we are really anxious to bring peace to the world, and particularly to Europe, we must be prepared for sacrifices. We have got to establish economic peace, and if we don't establish it in a very short time we shall be faced with economic ruin. In the strictest, most nationalistic interests of this country, we have to see that economic war comes to an end. We have got to make whatever concessions are necessary in order to bring that peace into being.

## ECONOMIC PEACE

That is true not only of the reparation question ; it is true of our whole economic policy. We have been preaching to Europe, and quite rightly, that the erection of economic barriers between countries is a treachery to the whole spirit of the League of Nations, and all that it means, and yet with these words scarcely uttered we turn round and pass through Parliament a new departure in our economic system which is the very contradiction of everything we have said in international conference.

The Safeguarding of Industries Act is absolutely opposed to the whole spirit and purpose which the League of Nations has in view. A reference was made by your chairman to Lord Grey, and I saw in a very distinguished organ of the Coalition an attack on his recent speech. We are told that he ought not at this crisis to be suggesting that the present Government is not worthy of our confidence, but how can we trust the present Government ? How is it possible to trust them when one finds at Brussels, at Genoa, at the Hague, and elsewhere they preach the necessity of the economic unity of Europe, and then go down to the House of Commons and justify this Act on the strictest, the baldest, the most unvarnished doctrine of economic particularism for this country ? Nor does it stop there. I told you just now that for me this doctrine on which the League is based goes right through many other problems than those of a strictly international character. You will never solve

Indian or Egyptian difficulties by a reliance on force and force alone. I believe that the deplorable, the scandalous condition to which the neighbouring island of Ireland has been reduced is largely due to the failure to recognise that by unrestricted, unreasoning, and sometimes immoral force, you cannot reach the solution of the difficulties of that country.

And in industry it is the same thing. If you are really to get a solution of these great problems, depend upon it you will never do it by strikes and lock-outs. I am an outsider in industrial matters. I am reproached when I venture to say anything about them with the observation that I am no business man. I can only hope that in this case lookers-on may sometimes see most of the game. But to me it is profoundly depressing when I see whichever section of the industrial world happens to have the market with it—whether employers or wage-earners—making it its only concern to down the other party as much as it can. You will never reach a solution that way. You have to recognise in industrial as in international affairs that the spirit of co-operation, the spirit of partnership, is your only hope of salvation.

### THE TWO CAUSES OF UNREST

What is the conclusion of what I have tried to say to you? There are at the present time two great causes of fighting and hostility. There used to be three. There was a time when men fought about religious doctrine, and though I do not

defend it, it was perhaps less sordid than some of our fights to-day. Now the two great causes of fighting are greed and fear. Generally speaking, I think we may say that greed in international matters is a less potent cause of hostility than fear. The disease the world is suffering from is the disease of fear and suspicion. You see it between man and man, between class and class, and most of all between nation and nation. People reproach this great country and other great countries with being unreasonable or unwilling to make concessions. If you look deeply into it you will find always the same cause. It is not mere perversity; it is fear and fear alone that makes men unreasonable and contentious. It is no new thing; it has existed from the foundation of the world. The Prime Minister the other day said, and said quite truly, that the provisions of the Covenant, however admirable, were not in themselves sufficient to secure the peace of the world. He made an appeal, quite rightly, to the religious forces and organisations to assist. I agree, but after all something may be done by political action, and something by international organisation. In modern medicine doctors are constantly telling us they cannot cure any disease—all they can do is to give nature a chance. No Covenant will teach men to be moral or peace-loving, but you can remove, diminish, or modify the conditions which make for war, and take obstacles out of the way of peace. We advocate partnership in industry and social life. We advocate self-government, international co-operation. We recognise that these are no ends in themselves;

they are means to the end ; they are the influences which will facilitate the triumph of the right and impede the success of the wrong.

But looking deeper into the matter, to the very foundations, we recognise, all of us, the most devoted adherents of the League, and all men of goodwill, that in the end we must strive for the brotherhood of man. We admit we can do comparatively little to help it forward. We recognise that our efforts, whether by covenant or other means, must necessarily be imperfect ; but we say, and say rightly, that we have been told that perfect love casteth out fear, and that any step towards that love, however imperfect, will at any rate mitigate the terrors of mankind.



# THE BALANCE OF POWER

BY PROFESSOR A. F. POLLARD

Hon. Litt.D.; Fellow of All Souls' College, Oxford ;  
F.B.A.; Professor of English History in the  
University of London ; Chairman of the Institute  
of Historical Research.

PROFESSOR POLLARD said :—The usual alternative to the League of Nations, put forward as a means of averting war by those who desire or profess to desire permanent peace, but dislike or distrust the League of Nations, is what they call the Balance of Power. It is a familiar phrase ; but the thing for which the words are supposed to stand, has, if it can save us from war, so stupendous a virtue that it is worth while inquiring what it means, if it has any meaning at all. For words are not the same as things, and the more a phrase is used the less it tends to mean : verbal currency, like the coinage, gets worn with use until in time it has to be called in as bad. The time has come to recall the Balance of Power as a phrase that has completely lost the value it possessed when originally it was coined.

Recent events have made an examination of the doctrine of the Balance of Power a matter of some urgency. The Allies who won the war concluded a pact to preserve the peace, but in that pact they have not yet been able to include Germany or

Russia or the United States, three Powers which are, potentially at any rate, among the greatest in the world. So, some fifty years ago, Bismarck, who won three wars in the mid-Victorian age, set himself to build up a pact of peace. But his Triple Alliance was not only used to restrain, but abused to repress, the excluded Powers; and that abuse of a pact of peace drove the excluded Powers, France and Russia, into each other's arms. There resulted the Balance of Power which produced the war we have barely survived. And hardly was the great war fought and won than we saw the wheel beginning to revolve once more. The excluded Powers, repressed or merely restrained, began to draw together; others than Turkey might gravitate in the same direction, while the United States stands in splendid isolation as much aloof as we were from the Triple Alliance and the Dual Entente a generation ago. Another Balance of Power loomed on the horizon. "Let us face the facts," declared the *Morning Post* on 22nd April last, "we are back again to the doctrine of the Balance of Power, whatever the visionaries and the blind may say." I propose to deal, as faithfully as I can in the time at my disposal, with the visionaries and the blind—when we have discovered who they are.

By "visionaries" I suppose the *Morning Post* means those who believe in the League of Nations; and by the "blind" I suppose it means them, too, though usually a distinction is drawn between those who see too much and those who cannot see at all. Nor need we determine whether those who

believe in the Balance of Power belong rather to the visionaries or to the blind. A man may be receiving less than his due when he is asked whether he is a knave or a fool, because the form of the question seems to preclude the proper answer, which may be "both." Believers in the Balance of Power are visionaries if they see in it a guarantee of peace, and blind if they fail to perceive that it naturally and almost inevitably leads to war. The fundamental antithesis is between the Balance of Power and the League of Nations.

#### BALANCE OR LEAGUE ?

That antithesis comes out wherever the problem of preserving the peace of the world is seriously and intelligently discussed. Six years ago, when he began to turn his attention to this subject, Lord Robert Cecil wrote and privately circulated a memorandum in which he advocated something like a League of Nations. To that memorandum an able reply was drafted by an eminent authority in the Foreign Office, in which it was contended that out of the discussion "the Balance of Power emerges as the fundamental factor." That criticism for the time being checked official leanings towards a League of Nations. But the war went on, threatening to end in a balance of power, which was anything but welcome to those who combined a theoretical belief in the Balance of Power with a practical demand for its complete destruction by an overwhelming victory for our Allies and ourselves. Meanwhile, before America

came in, President Wilson was declaring that, in order to guarantee the permanence of such a settlement as would commend itself to the United States, there must be, not "a Balance of Power, but a Community of Power."

Opinion in England was moving in the same direction. The League of Nations Society (afterwards called "Union") had been formed, and at a great meeting on 14th May, 1917, speeches advocating some such league as the best means of preventing future wars were delivered by Lord Bryce, General Smuts, the Archbishop of Canterbury, Lord Hugh Cecil, and others. Labour was even more emphatic; and, responding to popular opinion, the Government, at Christmas, 1917, appointed a small committee to explore the historical, juridical, and diplomatic bearings of the suggested solution. A brief survey sufficed to show that attempts to guarantee the peace of the world resolved themselves into three categories: (1) a Monopoly of Power, (2) Balance of Power, and (3) Community of Power. Rome had established the longest peace in history by subjugating all her rivals and creating a *Pax Romana* imposed by a world-wide Empire. That Empire lasted for centuries, and the idea persisted throughout the middle ages. In modern times Philip II. of Spain, Louis XIV. of France, Napoleon, and even the Kaiser were suspected of attempting to revive it; and their efforts provoked the counter idea, first of a Balance of Power, and then in these latter days of a Community of Power. The conception of a Monopoly of Power was by common consent

abandoned as impossible and intolerable, after the rise of nationality, by all except the particular aspirants to the monopoly. The Balance of Power and the Community of Power—in other words, the League of Nations—thus became the two rival solutions of the problem of permanent peace.

### THE THEORY OF BALANCE

The discussion of their respective merits naturally led to an inquiry into what the alternative policies really meant. But inasmuch as the Foreign Office committee found itself able to agree in recommending some form of League of Nations, the idea of the Balance of Power was not subjected to so close a scrutiny or so searching an analysis as would certainly have been the case had the committee realised the possibility that reaction against an imperfect League of Nations might bring once more to the front the idea of the Balance of Power. The fact was, however, elicited that the Foreign Office conception of the Balance of Power is a conception erroneously supposed to have been expressed by Castlereagh at the time of the Congress of Vienna, and adopted as the leading principle of nineteenth century British foreign policy.

Castlereagh was not, of course, the author of the phrase or of the policy. The phrase can be found before the end of the seventeenth century; and in the eighteenth the policy was always pleaded by potentates and Powers when on the defensive, and ignored by them when in pursuit of honour or

vital interests. But Castlereagh defined it afresh after the colossal disturbance of the balance which Napoleon effected ; and he explained it as “ a just repartition of force amongst the States of Europe.” They were, so to speak, to be rationed by common agreement. There were to be five or six Great Powers, whose independence was to be above suspicion and whose strength was to be restrained by the jealous watchfulness of one another. If any one State, like France under Napoleon, grew too powerful, all the rest were to combine to restrain it.

Now, there is a good deal in common between Castlereagh’s idea and that of the League of Nations. Of course, there are obvious differences. Castlereagh’s Powers were monarchies rather than peoples ; they were limited to Europe ; little regard was paid to smaller States, whose independence sometimes rested on no better foundation than the inability of the Great Powers to agree about their absorption ; and force rather than law or public opinion was the basis of the scheme. But none of these differences, important though they were, between Castlereagh’s Balance of Power and the League of Nations is so fundamental as the difference between two things which are commonly regarded as identical, viz., Castlereagh’s idea of the Balance of Power and the meaning which has since become attached to the phrase. There are at least two senses in which it has been used, and the two are wholly incompatible with one another. The League of Nations in reality resembles Castlereagh’s Balance of Power more closely than does the

conventional notion of that balance ; and a verbal identity has concealed a real diversity to the confusion of all political thought on the subject.

Castlereagh's Balance of Power is what I believe mathematicians call a multiple balance. It was not like a pair of scales, in which you have only two weights or forces balanced one against the other. It was rather like a chandelier, in which you have five or six different weights co-operating to produce a general stability or equilibrium. In Castlereagh's scheme it would not much matter if one of the weights were a little heavier than the others, because there would be four or five of these others to counterbalance it ; and his assumption was that these other Powers would naturally combine for the purpose of redressing the balance and preserving the peace. But a simple balance between two opposing forces is a very different thing. If there are only two, you have no combination on which you can rely to counteract the increasing power of either, and the slightest disturbance suffices to upset the balance. Castlereagh's whole scheme therefore presupposed the continued and permanent existence of some five or six great Powers always preserving their independence in foreign policy and war, and automatically acting as a check upon the might and ambition of any single State.

#### THE CHANGE SINCE CASTLEREAGH

Now, it was this condition, essential to the maintenance of Castlereagh's Balance of Power, which

completely broke down during the course of the nineteenth century. Like most of the vital processes in history, the change was gradual and unobtrusive, and its significance escaped the notice of politicians, journalists, and even historians. Men went on repeating Castlereagh's phrases about the Balance of Power without perceiving that the circumstances, which alone had given it reality, had entirely altered. The individual independence and automatic action of the Great Powers in checking the growing ambitions and strength of particular States were impaired, if not destroyed, by separate Alliances, which formed units into groups for the purposes of war and foreign policy, and broke up the unity of the European system, just as a similar tendency threatens to break up the League of Nations. There was a good deal of shifting about in temporary alliances which there is no need to recount ; but the ultimate upshot was the severance of Europe into the two great groups with which we are all familiar, the Triple Alliance of Germany, Austria, and Italy on one side, and the Triple Entente between Russia, France, and Great Britain on the other. The multiple Balance of Power was thus changed into a simple balance between two vast aggregations of force, and nothing remained outside to hold the balance, except the United States, which had apparently forsworn by the Monroe Doctrine the function of keeping it even.

And yet men continued to speak of the Balance of Power as though there had been no change, and as though Castlereagh's ideas were as applicable



to the novel situation as they had been to the old ! That illustrates the tyranny of phrases. Cynics have said that language is used to conceal our thoughts. It is difficult to resist the conclusion that phrases are used to save us the trouble of thinking. We are always giving things labels in order to put them away in their appropriate pigeon-holes, and then we talk about the labels without thinking about them, and often forgetting (if we ever knew) the things for which they stand. So we Pelmanised the Balance of Power, and continued to use the phrase without in the least troubling to ask what it means. When I asked at the Foreign Office whether diplomatists meant by the Balance of Power the sort of simple balance between two great alliances like the Triple Alliance and the Triple Entente, I was told "yes" ; and there was some surprisc—since the tradition of Castlereagh is strong in the service—when I pointed out that that was an entirely different balance from that of which Castlereagh had approved as a guarantee of peace. You remember the Cheshire cat in *Alice in Wonderland*—an excellent text-book for students of politics—and how the cat gradually faded away leaving only its grin behind it to perplex and puzzle the observer. So the body and the substance of Castlereagh's Balance of Power passed away, and still men talk of the grin and look to the phrase to save them from war. Whether to call them visionaries or the blind, I do not know.

## MISCHIEVOUS HALLUCINATION

In either case, it is a mischievous hallucination ; for the simple Balance of Power between two great combinations is not only no guarantee of peace, but the great begetter of fear, of the race for armaments, and of war. Consider for a moment. If you want a balance, you want to have it perfect. What is a perfect balance between two opposing weights or forces ? It is one which the addition of a feather-weight to either scale will at once and completely upset. Now what will that equipoise produce ? The ease with which the balance may be destroyed will produce either on one side the temptation to upset it, and on the other fear lest it be upset, or fear on both sides at once. What indeed was it but this even balance and consequent fear which produced the race for armaments ? And what does the race for armaments result in but in war ? If we want war, we need only aim at a Balance of Power, and it will do the rest. So far from being a guarantee of peace, the Balance of Power is a sovereign specific for precipitating war.

Of course, there are arguments for a Balance of Power. Plenty of them, alas ! though they are not often avowed. It produces other things than war. For one thing, it makes fortunes for munition firms. For another, it provides careers for those who have a taste for fighting or for military pomp. Thirdly, in order to maintain armies and navies and armaments, it keeps up taxation and diverts money from social, educational, and other reforms

which some people want to postpone. Fourthly, it gratifies those who believe that force is the ultimate sanction of order, and, by necessitating the maintenance of large forces for defensive purposes, incidentally provides means for dealing with domestic discontent. Fifthly, it panders to those who talk of prestige and think that prestige depends upon the size of a nation's armaments. For the sake of these things many would be willing to take the risk of war which the Balance of Power involves. But most of those who use the phrase are unconscious of these motives, and use it as they use many another phrase, simply because they know not what it means. For, assuredly, no sane person who had examined the Balance of Power, as it existed before the war, could ever advocate it as a means of peace.

Indeed, whenever there has been the prospect of a practical Balance of Power, its votaries have shown by their action that they knew their creed was nonsense. The late war, for instance, might have been ended in 1916 on the basis of a Balance of Power. There were a few who believed that that was the best solution ; but they were not our latter-day believers in the Balance of Power. Their cry was all for a fight to a finish and a total destruction of the Balance of Power by an overwhelming victory for the Allies, and their one regret is that a final blow by Marshal Foch did not destroy the last vestige of a German army. What is the point of expressing belief in the Balance of Power when you indignantly repudiate your own doctrine on every occasion on which you might be able to

give it effect? And what is the point of the present advocacy of the Balance of Power by those who think themselves neither visionaries nor blind? Do they wish to restore the military strength of Germany and of Russia and to see an Alliance between them confronting a Franco-British union, compelled thereby to be militarist too? Is it really that they wish to be militarists and that the League of Nations, with its promise of peace, retrenchment, and reform, is to them a greater evil than the Balance of Power?

#### WHERE THE LINE IS DRAWN

There is yet another fatal objection to the Balance of Power due to the change in circumstances since the days of Castlereagh. He could afford to think only of Europe, but we have to think of the world; and if our specific has any value it must be of world-wide application. We cannot proclaim the virtues of the Balance of Power and then propose to limit it to the land or to any particular continent. Now, did our believers in the Balance of Power ever wish to see power balanced anywhere else than on the continent of Europe? That, if we studied history in any other language than our own, we should know was the gibe which other peoples flung at our addiction to the Balance of Power. We wanted, they said, to see a Balance of Power on the continent of Europe, to see one half of Europe equally matched against the other, because the more anxiously Continental States were absorbed in maintaining their Balance of Power, the keener

would be their competition for our favour, and the freer would be our hands to do what we liked in the rest of the world.

Was that a baseless slander? Let us test it with a question or two. Did we ever want a Balance of Power at sea? British supremacy, with a two-to-one or at least a sixteen-to-ten standard was, I fancy, our minimum requirement. Is British supremacy what we mean by a Balance of Power? Again, did we ever desire a Balance of Power in Africa, America, or Asia? We may have talked of it sometimes, but only when we were the weaker party and feared that another might claim in those continents the sort of Balance of Power we claimed on the sea. We never spoke of the Balance of Power in the interests of any nation except ourselves and an occasional ally. We cannot speak in those terms to-day. If we demand a Balance of Power on land, we must expect others to claim it at sea; if we urge it on Europe as a means of peace, we cannot object if others turn our own argument against us in other quarters of the globe; and wherever you have a Balance of Power you will have a race for armaments and the fear of war.

The Balance of Power is, in fact, becoming as obsolete as the Monopoly of Power enjoyed by the Roman Empire. It is a bankrupt policy which went into liquidation in 1914, and the high court of public opinion demands a reconstruction. The principle of that reconstruction was stated by President Wilson, a great seer whose ultimate fame will survive the obloquy in which he has been

involved by the exigencies of American party-politics and the short-sightedness of public opinion in Europe. We want, he said, a Community of Power, and its organ must be the League of Nations. Nations must begin to co-operate and cease to counteract.

I am not advocating the League of Nations except in the limited way of attempting to show that the Balance of Power is impossible as an alternative unless you can re-create the conditions of a century ago, restore the individual independence of a number of fairly equal Powers, and guarantee the commonwealth of nations against privy conspiracy and sedition in the form of separate groups and alliances. But there is one supreme advantage in a Community of Power, provided it remains a reality, and that is that it need never be used. Its mere existence would be sufficient to ensure the peace; for no rebel State would care to challenge the inevitable defeat and retribution which a Community of Power could inflict. It has even been urged, and I believe it myself, that Germany would never have invaded Belgium had she been sure that Great Britain, and still less had she thought that America, would intervene. It was the Balance of Power that provoked the war, and it was the absence of a Community of Power which made it possible.

#### BASIS OF SECURITY

But no one who thinks that power—whether a Monopoly, a Balance, or even a Community of

Power is the ultimate guardian angel of our peace, has the root of the matter in him. Men, said Burke, are not governed primarily by laws, still less by force ; and behind all power stands opinion. To believe in public opinion rather than in might excludes the believer from the regular forces of militarism and condemns him as a visionary and blind. For advocates of the Balance of Power bear a striking resemblance to the Potsdam school ; and even so moderate a German as the late Dr. Rathenau declared in his unregenerate days before the war that Germans were not in the habit of reckoning with public opinion. Nevertheless, there is a frontier in the world which for a century and more has enjoyed a security which all the armaments of Prussian militarism could not give the German Fatherland ; and the absolute security of that frontier rests not upon a monopoly nor a community, still less upon a balance of power, but on the opinion held on both sides of that frontier that all power is irrational and futile as a guarantee of peace between civilised or Christian people.

Let us look at that frontier for a moment. It is in its way the most wonderful thing on earth, and it holds a light to lighten the nations and to guide our feet into the way of peace. It runs, of course, between the Dominion of Canada and the United States of America across the great lakes and three thousand miles of prairie ; and from the military and strategic point of view it is probably the worst frontier in the world. Why then is it secure ? Is it because of any monopoly or community or balance of power ? Is it because the United States

and the British Empire are under a common government, or because there is along that frontier a nicely-balanced distribution of military strength? No, it is secure, not in spite of the absence of force, but because of the absence of force; and if you want to destroy the peace of that frontier from end to end, all you need to do is to send a regiment to protect it, launch a *Dreadnought* on those lakes, and establish a balance of power. For every regiment or warship on one side will produce a regiment or warship on the other; and then your race for armaments will begin, and the poison will spread until the whole of America becomes like Europe, an armed camp of victims to the theory of strategic frontiers and of the Balance of Power.

Those theories, their application, and their consequences recently cost the world thirty million casualties and thousands of millions of pounds within a brief five years, and yet left the frontiers of Europe less secure than they were before. Three thousand miles of frontier in North America have in more than a hundred years cost us hardly a life, or a limb, or a penny. As we put those details side by side we realise *quantula regitur mundus sapientia*—with how little wisdom do men rule the world. Yet the truth was told us long ago that he that ruleth his spirit is better than he that taketh a city, and we might have learnt by our experience of the peace that the only conquest that really pays is the conquest of oneself.

The real peace of that North American frontier is due to no conquest of Americans by Canadians or of Canadians by Americans, but to their conquest



of themselves and of that foolish pride of "heathen folk who put their trust in reeking tube and iron shard." Let us face the facts, whatever the visionaries and the blind may say. So be it. The war is a fact, and so is the desolation it has wrought. But that Anglo-American frontier is also a fact, and so is that century of peace which happily followed upon the resolution to depend for the defence of that frontier on moral restraint instead of on military force. Verily, peace hath her victories not less renowned than those of war.

#### THE ALTERNATIVE

We have, indeed, to face the facts, and the facts about the Balance of Power must dominate our deliberations and determine the fate of our programmes. There may be no more war for a generation, but there can be no peace with a Balance of Power. There can be nothing better than an armed truce; and an armed truce, with super-dreadnoughts costing from four to eight times what they did before the war, is fatal to any programme of retrenchment and reform. We are weighted enough in all conscience with the debt of that war without the burden of preparation for another; and a Balance of Power involves a progressive increase in preparations for war.

Unless we can exorcise fear, we are doomed to repeat the sisyphian cycles of the past and painfully roll our programmes up the hill, only to see them dashed to the bottom, before we get to the top, by the catastrophe of war. Fear is fatal to freedom;

it is fear which alone gives militarism its strength, compels nations to spend on armaments what they fain would devote to social reform, drives them into secret diplomacy and unnatural alliances, and leads them to deny their just liberties to subject populations. Fear is the root of reaction as faith is the parent of progress; and the incarnation of international fear is the Balance of Power.

# INTERNATIONAL DISARMAMENT

BY MAJOR-GENERAL SIR FREDERICK MAURICE,  
K.C.M.G., C.B.

Director of Military Operations—Imperial General Staff,  
1915-16.

SIR FREDERICK MAURICE said :—This problem of the reduction of armaments is one of the most urgent of the international and national problems of the day. It is urgent in its economic aspect, urgent also as regards its relation to the future peace of the world. The urgency of its economic aspect was proclaimed two years ago at the Brussels conference of financiers assembled by the League of Nations. These experts said quite plainly and definitely that, so far as they could see, the salvation of Europe from bankruptcy depended upon the immediate diminution of the crushing burden of expenditure upon arms. That was two years ago. Linked up with this question is the whole question of the economic reconstruction of Europe. Linked up with it also is that deep and grave problem of reparations. It is no longer the case to-day, if it has ever been the case since the war, which I doubt, that sober opinion in France considers it necessary for France to have large military forces in order to protect her from German aggression in the near future. For the past two years, however, it has been the custom of those who live upon alarms

to produce the German menace. There is a great body of opinion in France at this moment which feels that unless France is able to put the pistol to Germany's head, it will never be able to get a penny out of Germany.

You have the further connection of the attitude of America to the problem. America said, officially through Mr. Hoover and unofficially through a number of her leading financiers, that she was not ready to come forward and take her share in the economic restoration of Europe so long as Europe is squandering its resources upon arms. The connection is quite definitely and explicitly recognised in the Covenant of the League of Nations. Article 8 begins: "The principles of the League recognise that the maintenance of peace requires reduction of national armaments to the lowest point consistent with national safety, and the enforcement by common action of international obligations." These words were promulgated in 1919. Personally, I find myself in complete agreement with what Lord Robert Cecil said this morning, and what Lord Grey said a few days ago at Newcastle, that one of the prime causes of the war was Prussian militarism. By that I mean the influence of that tremendous military machine, which had been built up through years of labour in Germany, in moulding the public opinion of that country.

## A GROUP OF NEW ARMIES

Well, how do we stand in regard to that to-day? We stand to-day in the position that the armaments of Germany, Austria, Hungary, Bulgaria, have all been compulsorily drastically reduced, but in their place you have a whole group of new armies. You have armies to-day which did not exist before the war, in Finland, Esthonia, Poland, Lithuania, and Czecho-Slovakia, and the sum total is that at this moment there are more armed men in time of peace in Europe than in 1913. Is there no danger that this machine will mould the minds of some other peoples, just as the German machine moulded the minds of the Germans? This is the position as regards the peace establishments of Europe to-day in their relation to the future peace of the world. What about the economic position? I have mentioned that certain Powers have had their forces drastically reduced, and that has brought with it a drastic reduction of expenditure, but I have before me the naval, military, and air force estimates of the eight principal Powers in Europe, leaving out Germany, Austria, and Bulgaria, whose forces have been compulsorily reduced.

At the economic conference of financiers in Brussels in 1920 it was mentioned with horror that 20 per cent. of the income of Europe was then being devoted to arms. I find that to-day 25 per cent. of the total income of these eight Powers is devoted to arms. I find, further, that of these eight Powers who have budgeted for a smaller

service, only one—Yugo-Slavia—has managed to balance her budget, and the others have large deficits which are many times covered by their expenditure on arms. And this is going on at a time when all these eight nations are taxed almost up to their limit, when the whole of their industries are suffering in consequence, and when the danger of bankruptcy, which horrified the financiers in 1920, is even more imminent.

That being the case, what has been done in the last few years to remedy this matter, and why is more not being done? As you all know, this question is in the forefront of the programme of the League of Nations. And the League began to deal with it at once. Lord Robert Cecil will agree with me that the framers of the Covenant, of which he is one of the chief, could not foresee everything, and they did not foresee at the time the Covenant was framed, that machinery would be required to deal with this extraordinarily complex question of armaments. They created an organisation then called a Permanent Military Command, still in existence, to advise the Council of the League on all military matters. But when these gentlemen got to work upon such questions as reduction of armaments, they at once found themselves dealing with matters entirely beyond their competence, because into this problem enter problems of high politics and finance, and a thousand other questions of which soldiers, sailors, and airmen know nothing whatever.

## THE LEAGUE'S COMMISSION

The first step was to remedy an oversight in the machinery, and that was done at the first meeting of the Assembly. The first meeting of the Assembly created a temporary mixed commission on armaments, which was composed of persons of recognised competence in political, social, and economic matters. It consisted of six members of the old Permanent Commission, and in addition a number of statesmen, employers, and representatives of labour. This body started to tackle this grave question. Before it began the first Assembly of the League had suggested one line of approach—that there should be an agreement to limit expenditure; that an attempt should be made to limit armaments by limiting budgets; and nations were asked to agree that they would not exceed in the two years following the acceptance of the resolution the budgeted expenditure on armaments of the current year.

That proposal did not meet with great success. It was turned down by seven Powers, notably by France and Spain. On the whole, I think France and Spain and the other Powers had some reason on their side, because it is not possible to approach this problem solely from the financial standpoint. You cannot get a financial common denominator and apply it to armaments. The varying costs of a soldier in Europe and in Japan have no relation to each other. The cost of a voluntary soldier in Great Britain has no relation to the cost of a

conscript on the Continent. Therefore, that line of approach, when applied too broadly, is not fruitful. I think myself it is quite possible that you may be able to apply financial limitations to the question of material, the construction of guns and other weapons of war, because the cost of these things in foreign countries tends much more to a common level. I think this is a possible line of approach, but to try to make a reduction of armaments by reducing budgets on a wholesale scale I do not think will lead us anywhere at all. I may safely say that for the present that line of approach has been abandoned.

The Temporary Mixed Commission got to work, and in its first year, frankly, I cannot say it did very much. It concerned itself very largely with the accumulation of information and the collection of statistics, bearing rather the same relation to world problems as a Royal Commission does to our domestic problems. By the time the second Assembly met practically nothing had been done by the Commission. But other people had been at work, and our own League of Nations Union had put forward a proposal—a line of approach, rather, I would say, to this problem—which I for one think is extremely useful. It began by inquiring as to what armaments were for, which after all is a useful way of beginning, and the inquiry came to the conclusion that nations required them for three purposes—to maintain internal order; as a last resort for the enforcement of law and order; and to protect overseas possessions. After these purposes were served there was a large residuum left. That



residuum could only be required for one purpose—to protect the country in question from foreign aggression. When you had gone thus far in your reasoning, you had obviously got into the zone where bargaining becomes possible, because it is obvious that by agreement you can get the force by which a nation is liable to become reduced. That line of approach received the general blessing at the second Assembly of the League of Nations. Things began to move, primarily because the Dominion of South Africa took a keen interest in this problem of the reduction of armaments, and South Africa appointed Lord Robert Cecil as its representative, and instructed him to press the matter on, and he did. The Assembly definitely instructed this temporary mixed Commission that by the time the third Assembly met plans should be prepared and concrete proposals put on paper.

#### WASHINGTON

Soon after that came the Washington Conference—a great landmark in the history of this problem. For reasons I need not go into in detail, the naval problem is very much easier than the military or air problem. You have as the nucleus of naval forces something quite definite and precise—the battleship—and it also happens that that particular unit is extremely costly, and takes a long time to build, and no man has yet ever succeeded in concealing the existence of a battleship. There you had three important points—a large and important unit in the possession of everybody concerned,

very costly, so that by reducing it you make great reductions in expenditure. There was no possibility of avoiding an agreement about the construction of battleships, and it is to these facts mainly that the happy results of the Washington Conference were due.

But for the furtherance of the problem the point is this. The Washington Conference definitely established the principle of reduction of armaments on a great ratio. The ratio for battleships between Great Britain, the United States, Japan, France, and Italy, was settled as to 5, 5, 3, and 1.75. They all agreed on a definite ratio. All agreed to scrap a certain number of ships, to bring their tonnage down to a certain figure, and by doing that relatively they were left in the same position as before, with this advantage—that they at once obtained an enormous reduction in expenditure on armaments.

That opened up a new line of approach for the attack on this problem from the military and air standpoint. And the next development took place in February this year at the meeting of the Temporary Mixed Commission on armaments, when the Esher proposals were presented. There has been a great deal of talk about the Esher proposals, and I am glad of it, because the one thing wanted in this question is public interest. The Esher proposals were an endeavour to apply to land armaments this principle of reduction on a great ratio. And the line taken was this. It was necessary to find some unit in land armaments which corresponded with the battleships, and the unit selected by Lord

Esher was the 300,000 regular soldiers of the peace armies in France, England, and Spain. It was selected because it happened to be the number to which the Austrian army was reduced by treaty, and with that unit he proposed a ratio for the armies of Europe, which would leave everybody relatively in much the same position as before, but would obtain an immediate reduction in numbers of standing armies and a great reduction of expenditure.

This proposal was subjected to a great deal of criticism, and I am sorry to say nine-tenths of the criticism appears to emanate from persons who have never read the proposal at all. It is a proposal which lends itself to a great deal of criticism, and the most effective criticism which could have been applied at the time it was presented was that it put the cart before the horse, and approached the problem from the wrong direction, for, as Lord Robert Cecil has said here this morning, what nations require is security. Some of them have clear ideas as to the way of obtaining it, but they all want it, and before you can expect people to reduce their armaments, which are, after all, maintained mainly for the purpose of providing security, you must give them something that will take the place of armaments.

#### A GENERAL DEFENSIVE PACT

In June an important development took place in this Temporary Commission. It was increased by the addition of a number of statesmen, and,

amongst others, of men who ought to have been on it long ago. Lord Robert Cecil was added, and he at once proceeded to remedy what was a real difficulty in Lord Esher's proposals. He put forward a plan for providing security in the form, as the Assembly of the League had asked, of a definite written proposal—really a brief treaty. The purport of that treaty is included in the form of resolutions, which are roughly as follows:—No scheme for the reduction of armaments can be effective unless it is general; that in the present state of the world no Government can accept the responsibility for a serious reduction of armaments unless it is given some other equally satisfactory guarantee of the safety of its country; such guarantee can only be found in a general defensive agreement of all the countries concerned, binding them all to come to the assistance of any one of them if attacked.

A general defensive pact, with a proviso! It is obviously unreasonable to expect the States of the American continent to be ready to come over at any moment to help in Europe. It is obviously unreasonable to expect the States of Europe to bind themselves to come and fight in Asia. Therefore, there was this proviso added that an obligation to come to the assistance of the attacked country should be limited to those countries which belonged to the same quarter of the globe. Thus, you see, you are getting the obligation of the League into regional application. Personally my own conviction is that this is the line upon which many of the functions of the League will develop.

The main point of the situation as it is to-day is that you have got a committee working out in detail a general pact, which when it is formulated will be far more complete and satisfactory than the very general and vague Clause 10 of the Covenant. We have reached the position when practical proposals are beginning to emerge. What more is wanted? How can we help on this work? You will have gathered from what I said that it is my own conviction that with this problem of reduction of armaments is so closely linked up the problem of economic reconstruction and reparations that the whole ought to be taken together. I believe one of the reasons why so little progress has been made is that the economic problems have been entrusted, with the blessing of our and other Governments, to perambulating conferences, while the disarmament problem has been left solely to the League of Nations. I believe if you could get the whole of these problems considered by one authority—and there is one obvious authority—progress would be far more rapid.

There is another matter which concerns us as citizens—the attitude of our own Government to this question. I was delighted to see recently an announcement made by a Minister in the House of Commons that the Government was seriously in favour of a reduction of armaments on a great ratio. I was delighted to read the other day a speech, to which reference has already been made, by the Prime Minister. We have had a great many words on this question. The time has come for

action, and quite frankly the action of our Government in the past two years with regard to this question has been neutral, and not always one of benevolent neutrality. Our official representatives at Geneva have been very careful to stress the difficulties, but up to the present I am unaware that our Government has ever placed its immense resources as regards information at the disposal of the one Englishman who has been striving with all his power and knowledge to get a definite solution. I believe there is going to be a change ; I hope so. In any case, the best thing we can do is to see that it is changed, and that Lord Robert Cecil is not left to fight a lone battle.

#### THE APPEAL TO PUBLIC OPINION

There is something more. There is something wanted from each of us. Personally, I am convinced myself that this problem is soluble on the lines by which it is now being approached. I speak to you as a professional who has given some study to the subject. I am convinced that on the lines of a general pact as opposed to the particular pact, a general defensive agreement as opposed to separate alliances, followed by reduction on a great ratio, the practicability of which has been proved at Washington, a solution can be reached. Given goodwill—that is the point. At the last Assembly of the League of Nations a report was presented by the Commission, of which Lord Robert Cecil was a member, and it wound up with these words : “ Finally, the committee recognises that a policy

of disarmament, to be successful, requires the support of the population of the world. Limitation of armaments will never be imposed by Governments on peoples, but it may be imposed by peoples on Governments." That is absolutely true. How are we going to apply it? Frankly, myself, I do not see that there is a great deal of value to be got by demonstrations which demand no more war. I have every sympathy with their object, but we have got to the stage when we want to get beyond words to practical resolutions. We want definite concrete proposals, and you won't get these merely by demonstrations. They are quite good in their way, but they are not enough. What you want in this matter is an informed public opinion which sees what is practical and insists on having it.

I am speaking to you as one who for a great many years believed absolutely that preparation for war was the means of securing peace. In 1919—when I had a little time to look round, to study the causes of the war and the events of the war—I changed my opinion. I then came quite definitely to the conclusion that preparation for war, carried to the point to which it had been carried in 1914, was a direct cause of war. I had to find another path, and I found it in 1919. Lord Robert may possibly remember that in the early days of the Peace Conference I came to him and made my confession of faith, and I promised to give him what little help I could. I have tried to keep my promise, and I believe this vital problem, upon which not only the economic reconstruction of Europe and the

future peace of the world, but also social development at home depend, can be solved provided you will recognise that the problem is very complex ; that there is fear to be overcome ; that you are content with what is practical from day to day, and accept each practical step provided it leads forward to the desired goal. I therefore most earnestly trust that the Liberal party will take this question up, and translate it into practical politics. For that is what is required.



# REPARATIONS AND INTER-ALLIED DEBT

BY JOHN MAYNARD KEYNES

M.A., C.B. ; Fellow of King's College, Cambridge ; Editor of *Economic Journal* since 1912 ; principal representative of the Treasury at the Paris Peace Conference, and Deputy for the Chancellor of the Exchequer on the Supreme Economic Council, Jan.-June, 1919.

MR. KEYNES said :—I do not complain of Lord Balfour's Note, provided we assume, as I think we can, that it is our first move, and not our last. Many people seem to regard it as being really addressed to the United States. I do not agree. Essentially it is addressed to France. It is a reply, and a very necessary reply, to the kites which M. Poincaré has been flying in *The Times* and elsewhere, suggesting that this country should sacrifice all its claims of every description in return for—practically nothing at all, certainly not a permanent solution of the general problem. The Note brings us back to the facts and to the proper starting-point for negotiations.

In this question of Reparations the position changes so fast that it may be worth while for me to remind you just how the question stands at this moment. There are in existence two inconsistent settlements, both of which still hold good in law. The first is the assessment of the Reparation

Commission, namely, 132 milliard gold marks. This is a capital sum. The second is the London Settlement, which is not a capital sum at all, but a schedule of annual payments calculated according to a formula; but the capitalised value of these annual payments, worked out on any reasonable hypothesis, comes to much less than the Reparation Commission's total, probably to not much more than a half.

### THE BREAKDOWN OF GERMANY

But that is not the end of the story. While both the above settlements remain in force, the temporary régime under which Germany has been paying is different from, and much less than, either of them. By a decision of last March Germany was to pay during 1922 £36,000,000 (gold) in cash, *plus* deliveries in kind. The value of the latter cannot be exactly calculated, but, apart from coal, they do not amount to much, with the result that the 1922 demands are probably between a third and a quarter of the London Settlement, and less than one-sixth of the Reparation Commission's original total. It is under the weight of this reduced burden that Germany has now broken down, and the present crisis is due to her inability to continue these reduced instalments beyond the payment of July, 1922. In the long run the payments due during 1922 should be within Germany's capacity. But the insensate policy pursued by the Allies for the last four years has so completely ruined her finances, that for the time being she can pay nothing

at all; and for a shorter or longer period it is certain that there is now no alternative to a moratorium.

What, in these circumstances, does M. Poincaré propose? To judge from the semi-official forecasts, he is prepared to cancel what are known as the "C" Bonds, provided Great Britain lets France off the whole of her debt and forgoes her own claims to Reparation. What are these "C" Bonds? They are a part of the London Settlement of May, 1921, and, roughly speaking, they may be said to represent the excess of the Reparation Commission's assessment over the capitalised value of the London Schedule of Payments, and a bit more. That is to say, they are pure water. They mainly represent that part of the Reparation Commission's total assessment which will not be covered, even though the London Schedule of Payments is paid in full.

In offering the cancellation of these Bonds, therefore, M. Poincaré is offering exactly nothing. If Great Britain gave up her own claims to Reparations, and the "C" Bonds were cancelled to the extent of France's indebtedness to us, France's claims against Germany would be actually greater, even on paper, than they are now. For the demands under the London Settlement would be unabated, and France would be entitled to a larger proportion of them. The offer is, therefore, derisory. And it seems to me to be little short of criminal on the part of *The Times* to endeavour to trick the people of this country into such a settlement.

Personally, I do not think that at this juncture there is anything whatever to be done except to grant a moratorium. It is out of the question

that any figure, low enough to do Germany's credit any good now, could be acceptable to M. Poincaré, in however moderate a mood he may visit London next week. Apart from which, it is really impossible at the present moment for any one to say how much Germany will be able to pay in the long run. Let us content ourselves, therefore, with a moratorium for the moment, and put off till next year the discussion of a final settlement, when, with proper preparations beforehand, there ought to be a grand Conference on the whole connected problem of inter-Governmental debt, with representatives of the United States present, and possibly at Washington.

#### THE ILLUSION OF A LOAN

The difficulties in the way of any immediate settlement now are so obvious that one might wonder why any one should be in favour of the attempt. The explanation lies in that popular illusion, with which it now pleases the world to deceive itself—the International Loan. It is thought that if Germany's liability can now be settled once and for all, the "bankers" will then lend her a huge sum of money by which she can anticipate her liabilities and satisfy the requirements of France.

In my opinion the International Loan on a great scale is just as big an illusion as Reparations on a great scale. It will not happen. It cannot happen. And it would make a most disastrous disturbance if it did happen. The idea that the rest of the

world is going to lend to Germany, for her to hand over to France, about 100 per cent. of their liquid savings—for that is what it amounts to—is utterly preposterous. And the sooner we get that into our heads the better. I am not quite clear for what sort of an amount the public imagine that the loan would be, but I think the sums generally mentioned vary from £250,000,000 up to £500,000,000. The idea that any Government in the world, or all of the Governments in the world in combination, let alone bankrupt Germany, could at the present time raise this amount of new money (that is to say, for other purposes than the funding or redemption of existing obligations) from investors in the world's Stock Exchanges is ridiculous.

The highest figure which I have heard mentioned by a reliable authority is £100,000,000. Personally, I think even this much too high. It could only be realised if subscriptions from special quarters, as, for example, German hoards abroad, and German-Americans, were to provide the greater part of it, which would only be the case if it were part of a settlement which was of great and obvious advantage to Germany. A loan to Germany, on Germany's own credit, yielding, say, 8 to 10 per cent., would not in my opinion be an investor's proposition in any part of the world, except on a most trifling scale. I do not mean that a larger anticipatory loan of a different character—issued, for example, in Allied countries with the guarantees of the Allied Government, the proceeds in each such country being handed over to the guaranteeing Government,

so that no new money would pass—might not be possible. But a loan of this kind is not at present in question.

Yet a loan of from £50,000,000 to £100,000,000—and I repeat that even this figure is very optimistic except as the result of a settlement of a kind which engaged the active goodwill of individual Germans with foreign resources and of foreigners of German origin and sympathies—would only cover Germany's liabilities under the London Schedule for four to six months, and the temporarily reduced payments of last March for little more than a year. And from such a loan, after meeting Belgian priorities and Army of Occupation costs, there would not be left any important sum for France.

I see no possibility, therefore, of any final settlement with M. Poincaré in the immediate future. He has now reached the point of saying that he is prepared to talk sense in return for an enormous bribe, and that is some progress. But as no one is in a position to offer him the bribe, it is not much progress, and as the force of events will compel him to talk sense sooner or later, even without a bribe, his bargaining position is not strong. In the meantime he may make trouble. If so, it can't be helped. But it will do him no good, and may even help to bring nearer the inevitable day of disillusion. I may add that for France to agree to a short moratorium is not a great sacrifice since, on account of the Belgian priority and other items, the amount of cash to which France will be entitled in the near future, even if the payments fixed last March were to be paid in full, is quite trifling.

A POLICY FOR THE LIBERAL PARTY

So much for the immediate situation and the politics of the case. If we look forward a little, I venture to think that there is a clear, simple, and practical policy for the Liberal Party to adopt and to persist in. Both M. Poincaré and Mr. Lloyd George have their hands tied by their past utterances. Mr. Lloyd George's part in the matter of Reparations is the most discreditable episode in his career. It is not easy for him, whose hands are not clean in the matter, to give us a clean settlement. I say this although his present intentions appear to be reasonable. All the more reason why others should pronounce and persist in a clear and decided policy. I was disappointed, if I may say so, in what Lord Grey had to say about this at Newcastle last week. He said many wise things, but not a word of constructive policy which could get any one an inch further forward. He seemed to think that all that was necessary was to talk to the French sympathetically and to put our trust in international bankers. He puts a faith in an international loan as the means of solution which I am sure is not justified. We must be much more concrete than that, and we must be prepared to say unpleasant things as well as pleasant ones.

The right solution, the solution that we are bound to come to in the end, is not complicated. We must abandon the claim for pensions and bring to an end the occupation of the Rhineland. The

Reparation Commission must be asked to divide their assessment into two parts—the part that represents pensions and separation allowances, and the rest. And with the abandonment of the former the proportion due to France would be correspondingly raised. If France would agree to this—which is in her interest, anyhow—and would terminate the occupation it would be right for us to forgive her (and our other Allies) all they owe us, and to accord a priority on all receipts in favour of the devastated areas. If we could secure a real settlement by these sacrifices, I think we should make them completely regardless of what the United States may say or do.

In declaring for this policy in the House of Commons yesterday, Mr. Asquith has given the Liberal Party a clear lead. I hope that they will make it a principal plank in their platform. This is a just and honourable settlement, satisfactory to sentiment and to expediency. Those who adopt it unequivocally will find that they have with them the tide and a favouring wind. But no one must suppose that, even with such a settlement, any important part of Germany's payments can be anticipated by a loan. Any small loan that can be raised will be required for Germany herself, to put her on her legs again, and enable her to make the necessary annual payments.



# THE OUTLOOK FOR NATIONAL FINANCE

BY SIR JOSIAH STAMP, K.B.E., D.Sc.

Assistant Secretary Board of Inland Revenue, 1916-19.  
Member of Royal Commission on Income Tax, 1919.

SIR JOSIAH STAMP said :—In discussing the problem of National Finance we have to decide which problem we mean, viz., the “short period” or the “long period,” for there are distinctly two issues. I can, perhaps, illustrate it best by the analogy of the household in which the chief earner or the head of the family has been stricken down by illness. It may be that a heavy doctor’s bill or surgeon’s fee has to be met, and that this represents a serious burden and involves the strictest economy for a year or two; that all members of the household forgo some luxuries, and that there is a cessation of saving and perhaps a “cut” into some past accumulations. But once these heroic measures have been taken and the burden lifted, and the chief earner resumes his occupation, things proceed on the same scale and plan as before. It may be, however, that the illness or operation permanently impairs his earning power, and that the changes which have to be made must be more drastic and permanent. Then perhaps would come an alteration of the whole ground plan of the life of that family, the removal

to a smaller house with lower standing charges and a changed standard of living. What I call the "short period" problem involves a view only of the current year and the immediate future for the purpose of ascertaining whether we can make ends meet by temporary self-denial. What I term the "long distance" problem involves an examination of the whole scale upon which our future outlay is conditioned for us.

The limit of further economies on the lines of the "Geddes' cut" that can become effective in 1923, would seem to be some 50 or 60 millions, because every 10 per cent. in economy represents a much more drastic and difficult task than the preceding, and it cuts more deeply into your essential national services. On the other side of the account one sees the probable revenue diminish to an almost similar extent, having regard to the effect of reductions in the rate of tax and the depression in trade, with a lower scale of profits, brought about by a lower price level, entering into the income-tax average. It looks as though 1923 may just pay its way, but if so, then, like the current year, it will make no contribution towards the reduction of the debt. So much for the "short period." Our worst difficulties are really going to be deep-seated ones.

#### THE TWO PARTS OF A BUDGET

Now a national budget may consist of two parts, one of which I will call the "responsive" and the

other the "non-responsive" portion. The responsive portion is the part that may be expected to answer sooner or later—later perhaps rather than sooner—to alterations in general conditions, and particularly to price alterations. If there is a very marked difference in general price level, the salaries—both by the addition or remission of bonuses and the general alteration in scales for new entrants—may be expected to alter, at any rate, in the same direction, and that part of the expense which consists of the purchase of materials will also be responsive. The second, or non-responsive part, is the part that has a fixed expression in currency, and does not alter with changed conditions. This, for the most part, is the capital and interest for the public debt.

Now the nature and gravity of the "long distance" problem is almost entirely a question of the proportions which these two sections bear to each other. If the non-responsive portion is a small percentage of the total the problem will not be important, but if it is larger, then the question must be faced seriously. Suppose, for example, that you have now a total budget of 900 million pounds, and that, in the course of time, all values are expressed at half the present currency figure. Imagine that the national income in this instance is 3600 million pounds. Then the burden, on a first approximation, is 25 per cent. Now, if the whole budget is responsive, we may find it ultimately at 450 million pounds out of a national income of 1800 million pounds, *i.e.* still 25 per cent. But let the non-responsive portion be 400 million pounds,

then your total budget will be 650 million pounds out of a national income of about 2000 million pounds, or  $33\frac{1}{3}$  per cent., and every alteration in prices—or what we call “improvement” in the cost of living—becomes an extraordinarily serious matter as a burden upon new enterprise in the future.

Let me give you a homely and familiar illustration. During the war the nation has borrowed something that is equivalent to a pair of boots. When the time comes for paying back the loan it repays something which is equivalent to two pairs or, possibly, even to three pairs. If the total number of boots produced has not altered, you will see what an increasing “pull” this is upon production. There are, of course, two ways in which this increasing pull—while a great boon to the person who is being repaid—must be an increased burden to the individual. Firstly, if the number of people making boots increases substantially, it may still be only one pair of boots for the same volume of production, if the burden is spread over that larger volume. Secondly, even supposing that the number of individuals is not increased, if the arts of production have so improved that two pairs can be produced with the same effort as was formerly necessary for one, then the debt may be repaid by them without the burden being actually heavier than before.

Now, coming back to the general problem. The two ways in which the alteration in price level can be prevented from resulting in a heavier individual burden than existed at the time when the

transaction was begun, are a large increase in the population with no lower average wealth, or a large increase in wealth with the same population—which involves a greatly increased dividend from our complex modern social organism with all its mechanical, financial, and other differentiated functions. Of course, some of the debt burden is responsive, so far as the annual charge is concerned, on that part of the floating debt which is reborrowed continually at rates of interest which follow current money rates, but, even so, the burden of capital repayment remains. An opportunity occurs for putting sections of the debt upon a lower annual charge basis whenever particular loans come to maturity, and there may be some considerable relief in the annual charge in the course of time by this method.

What are the prospects of the two methods that I have mentioned coming to our rescue in this "long distance" problem? It is a problem to which our present "short distance" contribution is, you will admit, a very poor one, for we have not so far really made any substantial contribution from current revenue towards the repayment of the debt.

#### A CENTURY OF THE NATIONAL DEBT

Historical surveys and parallels are notoriously risky, particularly where the conditions have no precedent. They ought, however, to be made, provided that we keep our generalisations from them under careful control. Now, after the

Napoleonic wars we had a national debt somewhat comparable in magnitude in its relation to the national wealth and income with the present debt. What happened to that as a burden during the 100 years just gone by? If it was alleviated, to what was the alleviation due? I would not burden you with a mass of figures, but I would just give you one or two selected periods. You can find more details in my recent book on *Wealth and Taxable Capacity*. We had a total debt of—

850	million	pounds	in	1817
841	„	„	„	1842
836	„	„	„	1857
659	„	„	„	1895
800	„	„	„	1903

and before this last war it had been reduced to 707 million pounds. In 1920, of course, it was over 8000 million pounds. Such incidents as the Crimean and the Boer wars added materially to the debt, but apart therefrom you will see that there is no tremendous relief by way of capital repayment to the original debt. Similarly, in a hundred years, even if we have no big wars, it is quite possible we may have additions to the national debt from smaller causes. Yet the volume of the debt per head fell from £50 to £15.7, so you will see that the increasing population made an enormous difference. The real burden of the debt is of course felt mainly in its annual charge. I will take this, therefore, rather than the capital:—

In	1817	the	charge	was	32	million	pounds
„	1842	„	„	„	28	„	„
„	1857	„	„	„	28.8	„	„

In 1895 the charge was 25 million pounds

„ 1903 „ „ „ 27 „ „

„ 1914 „ „ „ 24 „ „

Here you will see that the reduction from 32 to 24 was 25 per cent. or a much greater reduction than the reduction of the *total* capital debt, and this, of course, was contributed to by the lower rates of interest which had been brought about from time to time. When we take the annual charge per head the fall is much more striking. In the hundred years it decreased from 37s. to 10s. This, however, was a money reduction, and the *real* burden per head can only be judged after we have considered what the purchasing power of that money was. Now, the charge per head, reduced to a common basis of purchasing power, fell as follows:—

	Index figure
1817 ..	260
1842 ..	242
1857 ..	191
1895 ..	210
1914 ..	118

In the year 1920 the charge per head was £7.16 and my purchasing power index figure 629. You will see that the *real* burden in commodities moved down much less violently than the *money* burden, and the relief was not actually so great as it looks, because prices were far lower in 1914 than they were early in the nineteenth century.

In view of the fact that our debt is approximately ten times that of the last century, let us ask ourselves the broad question: “Can we look forward to nothing better than the reduction of

our debt by 450 millions in thirty-seven years ? ”

The nineteenth century was one long contest between two opposing forces. The increase in the population, together with the power to make wealth, were together enormously effective in decreasing the burden. Against them was the ultimate tendency to lower prices, and the former of these two forces slowly won the day.

I hesitate to say that we can expect anything at all comparable with the wonderful leap forward in productive power during the early Victorian era. I hope that in this I may prove to be wrong. Anyway I do not think that in our lifetime we can expect these islands to double their population.

### THE CAPITAL LEVY

If we cannot look forward to any great measure of relief through these channels, to what then must we look ? By far the most important alternative remedy which has been put to us is that of a Capital Levy ; it has the enormous virtue that it would repay on one level of prices the debts incurred at that level ; in short, it would give back one pair of boots at once for every pair it has borrowed, instead of waiting and stretching out over future generations the burden of two pairs. It is so attractive that one cannot wonder there is a tendency to slur over its less obvious difficulties.

Advocates of this scheme fall into two camps, whom I would distinguish broadly as the economist group and the Labour Party, and if you will



examine their advocacy carefully, you will see that they support it by two different sets of contentions, which are not easily reconciled. The economists lay stress upon the fact that you not only pay off at a less onerous cost in real goods, but that it may, considered arithmetically or actuarially, be "good business" for a payer of high income-tax to make an outright payment now and have a lighter income-tax in future. Very much of the economists' case rests indeed upon the argument drawn from the outright cut and the arithmetical relief. It will be seen that this case depends upon two assumptions. The first is that the levy in practice as well as in theory is an outright cut, and the second, that it is not repeated, or rather that the income-tax is really effectively reduced. But if you look at the programme of the other supporters of the Capital Levy you will not find any convincing guarantees of its non-repetition. I have not seen anywhere any scheme by which we can feel politically insured against its repetition. You will find plenty of indication that some intend to have both the levy and a high tax as well, the new money to be employed for other social purposes. The arguments based upon arithmetical or actuarial superiority of the levy for your pocket and for mine may therefore rather go by the board. But I am not going to discuss either the question of political guarantees or the possible future socio-financial policy of the Labour Party. I will merely ask you to consider whether the levy is likely to be in practice the outright cut that is the basis of the chief and most valid contention for it. Please understand that I

am not attempting to sum up all the many reasons for and against this proposal, but only to deal with the particular virtue claimed for it, bearing upon the increasing burden of the debt as prices decline.

Any taxation scheme dependent upon general capital valuation, where the amount to be paid is large—say larger than a year's revenue—falls, in my judgment, into the second or third rate category of taxation expedients. Whenever we are living in uncertain times, with no steadiness of outlook, valuation of many classes of wealth is then a tremendous lottery, and collection—which takes time—may be no less so.

The fair face of the outright and graduated levy would be marred in many ways. First, there are cases affected by valuation. The valuation of a fixed rate of interest on good security is easy enough. The valuation of a field or a house in these days presents more difficulty, but is, of course, practicable. In practice, however, people do not own these things outright. They have only an interest in them. This is where the rub comes. A very large part of the property in this country is held in life interests, and on reversions or contingencies. It is not a question of saying that a given property is worth £10,000 and that it forms part of the fortune of Jones, who pays 40 per cent. duty. The point is that the £10,000 is split between Jones and Robinson. Jones maybe has a life interest in it, and Robinson a reversionary interest. You value Jones's wealth by his prospect of life on a life table, and Robinson has the balance. But the life table does not indicate the actual likelihood

of Jones's life being fifteen years. It only represents the actuarial average expectation of all the lives. This may be useful enough for insurance dependent on the total experience, but it may be a shocking injustice to the individual in taxation. Only some 10 per cent. of the Joneses will live for the allotted time, and for the rest your valuation and your tax will be dead wrong, either too much or too little. Jones will be coming to you two years after he has paid, or rather his executors will come to you and say: "We paid a tax based on Jones living 15 years, and he has died; this ought, therefore, to be shifted to Robinson."

#### DIFFICULTIES OF VALUATION

People often say that a Capital Levy merely imagines everybody dying at the same time. This parallel is wrong in degree when you are considering the ease of paying duty or of changing the market values by a glut of shares, and it is still more wrong when you are thinking of ease of valuation. When a man is dead, he is dead, and in estimating the death duty you have not to bother about how long he is going to live! But every time you value a life interest and take a big slice of it for tax you are probably doing a double injustice. The charge is incorrect for two taxpayers. On a flat rate of tax this difficulty might be made less, but the essence of any effective levy is a progressive scale. Moreover, whether you are right or wrong about Robinson's tax, he has nothing in hand with which to pay it. He has either to raise a mortgage on

his expectation (on which he pays *annual* interest) or pay you by instalments. So far as his burden is concerned, therefore, there is no outright cut. You will be getting an annual figure over nearly the whole class of life interests and reversions. It is difficult to see how one can escape making adjustments year after year for some time in the light of the ascertained facts, until the expiry of, say, nine or ten years has reduced the disparities between the estimated valuations and the facts of life to smaller proportions.

Next come those valuations which depend for their accuracy upon being the true mid-point of probabilities. A given mine may last for five years in the view of some experts, or it may go on for fifteen in the view of others, and you may take a mid-point, say ten, and collect your tax, but, shortly after, this valuation turns out to be badly wrong, *though all your valuations in the aggregate are correct*. While the active procedure of collecting the levy is in progress for a number of years these assessments will simply shout at you for adjustment. There are other types of difficulty in assessment which involve annual adjustment, but you will appreciate most the necessity for care in the collection. Enthusiastic advocates for the levy meet every hard case put forward where it is difficult to raise money, such as a private ownership of an indivisible business, by saying: "But that will be made in instalments, or the man can raise a mortgage." But the extent to which this is done robs the levy of all the virtues attaching to outrightness, for each instalment becomes, as

the years roll on, different in its real content upon a shifting price level, and every payment of interest on the mortgage—to say nothing of the ultimate repayment of that mortgage—falls to be met as if reckoned upon the original currency level. Then those classes of wealth which are not easily realisable without putting down the market price also require treatment by instalments, and those who wish to put forward a logical scheme also add a special charge upon salary-earners for some years—a pseudo-capitalisation of their earning power.

A really fair and practicable levy would certainly be honeycombed with annual adjustments and payments for some period of years, and one must consider how far this would invalidate the economic case of the “outright cut,” and make it no better than a high income-tax; indeed far worse, for the high income-tax does at least follow closely upon the annual facts as they change, or is not stereotyped by a valuation made in obsolete conditions. Imagine three shipowners each with vessels valued at £200,000, and each called upon to pay 20 per cent., or £40,000. One owning five small ships might have sold one of them, and thus paid his bill; the second, with one large ship, might have agreed to pay £8000 annually (plus interest) for five years; while the third might have mortgaged his vessel for £40,000, having no other capital at disposal. At to-day's values each might have been worth, say, £50,000, but for the tax. The first would actually have ships worth £40,000, so he would have borne the correct duty of 20 per cent. The second would have £50,000, bringing in, say,

£5000 annually, and would be attempting to pay £8000 out of it, while the third would be paying £2000 a year out of his income and still be faced with an 80 per cent. charge on his fortune! His assessment is computed at one point of time, and liquidated at another, when its incidence is totally different.

If one cannot have a levy complete at the time of imposition, it clearly ought not to be launched at a time of rapidly changing prices. But that is, perhaps, when the economic case for it is strongest.

### A DESPERATE REMEDY

I do not rule the Capital Levy out as impracticable by any means, but as a taxation expedient I cannot be enthusiastic about it. It is a desperate remedy. But if our present temper for "annual" tax relief at all costs continues, we may *need* a desperate remedy. Without a levy what kind of position can you look forward to? Make some assumptions, not with any virtue in their details, but just in order to determine the possible prospect. If in fifteen to twenty years reparation payments have wiped out 1000 millions, debt repayments another 1000, and ordinary reductions by sinking funds another 1000 millions, you will have the debt down to 5000 millions, and possibly the lower interest then effective may bring the annual charge down to some 200 or 225 million pounds. If the population has reached sixty millions the nominal annual charge will be reduced from £7 16s. by one-half, but if prices have dropped further, say

half-way, to the pre-war level, the comparable burden will still be £4 10s. per head.

It is no good talking about "holidays from taxation" and imagining you can get rid of this thing easily; you won't. We are still in the war financially. There is the same need of the true national spirit and heroism as there was then. Thus hard facts may ultimately force us to some such expedient as the levy, but we should not accept it light-heartedly, or regard it as an obvious panacea. Perhaps in two or three years we may tell whether economic conditions are stable enough to rob it of its worst evils. The question whether the burden of rapidly relieving debt by this means in an instalment levy over a decade is actually lighter than the sinking fund method, depends on the relation of the drop in prices over the short period to the drop over the ensuing period, with a proper allowance for discount—at the moment an insoluble problem. I cannot yet with confidence join those who, on purely economic and non-political grounds, commend the scheme and treat it as "good business for the income-tax payer."

# FREE TRADE

BY RT. HON. J. M. ROBERTSON

P.C.; President of National Liberal Federation since 1920; M.P. (L.), Tyneside Division, Northumberland, 1906-18; Parliamentary Secretary to Board of Trade, 1911-15.

MR. ROBERTSON said:—At an early stage of the war Mr. H. G. Wells published a newspaper article to the effect that while we remained Free Traders we were determined in future to accord free entry only to the goods of those States which allowed it to us. The mere state of war, no doubt, predisposed many to assent to such theses who a few years before would have remembered that this was but the nominal position of the average protectionist of the three preceding generations. War being in itself the negation of Free Trade, the inevitable restrictions and the war temper alike prepared many to find reasons for continuing a restrictive policy when the war was over. When, therefore, the Committee of Lord Balfour of Burleigh published its report, suggesting a variety of reasons for setting up compromises in a tariffist direction, there were not wanting professed Free Traders who agreed that the small tariffs proposed would not do any harm, while others were even anxious to think that they might do good.

Yet the policy proposed by Lord Balfour's



Committee has not been adopted by the Coalition Government in anything like its entirety. Apart from the Dyestuffs Act, and such devices as the freeing of home-made sugar from excise, we have only had the Safeguarding of Industries Bill, a meticulously conditional measure, providing for the setting up of particular tariffs in respect of particular industries which may at a given moment be adjudged by special committees *ad hoc* to need special protection from what is loosely called "dumping." And even the findings of these committees so far have testified above all things to the lack of any accepted set of principles of a protectionist character. Six thousand five hundred articles have been catalogued as theoretically liable to protective treatment, and some dozen have been actually protected. They have given protection to certain products and refused it to others; according it to fabric gloves and glass and aluminium goods and refusing it to dolls' eyes and gold leaf.

Finally, the decision in favour of a tariff on fabric gloves has evoked such a storm of protest from the textile manufacturers who export the yarns with which foreign fabric gloves are made, that even the Coalitionist press has avowed its nervousness. When a professed protectionist like Lord Derby, actually committed to this protectionist Act, declares that it will never do to protect one industry at the cost of injuring a much greater one, those of his party who have any foresight must begin to be apprehensive even when a House of Commons majority backs the Government, which, hard

driven by its tariffists, decided to back its Tariff Committee against Lancashire. Protectionists are not much given to the searching study of statistics, but many of them have mastered the comparatively simple statistical process of counting votes.

### THE "NEW CIRCUMSTANCES" CRY

In a sense, there are new fiscal "circumstances." But I can assure my young friends that they are just the kind of circumstances which were foreseen by their seniors in pre-war days as sure to arise when any attempt was made to apply tariffist principles to British industry. As a German professor of economics once remarked at a Free Trade Conference, it is not industries that are protected by tariffs: it is firms. When a multitude of firms in various industries subscribed to a large Tariff Reform fund for election-campaign purposes, they commanded a large Conservative vote; but when for platform tariff propaganda, dealing in imaginative generalities and eclectic statistics, there are substituted definite proposals to meddle with specified interests, the real troubles of the tariffist begin. You might say that they began as soon as he met the Free Trader in argument; but that difficulty did not arise with his usual audiences. It is when he undertakes to protect hides and hits leather, or to protect leather and hits boot-making, or to help shipping and hits shipbuilding that he becomes acutely conscious of difficulties. Now he is in the midst of them. The threat of setting up a general tariff which will hit everybody alike

seems so far to create no alarm, because few traders now believe in it. Still, it would be very unwise to infer that the project will not be proceeded with. It served as a party war-cry in Opposition for ten years, and nearly every pre-war Conservative statesman was committed to it—Earl Balfour and Lord Lansdowne included. Even misgivings about Lancashire may fail to deter the tariffist rump.

Some of the people who even yet understand nothing of Free Trade economics are still found to argue that, if only the duty on imported gloves is put high enough, sufficient gloves will be made at home to absorb all the yarns now exported to German glove-makers. They are still blind, that is to say, to the elementary fact that since Germany manufactures for a much larger glove-market than the English, the exclusion of the German gloves means the probable loss to the yarn-makers of a much larger market than England can possibly offer, even if we make all our own gloves. In a word, instead of having to furnish new Free Trade arguments to meet a new situation, we find ourselves called upon to propound once more the fundamental truths of Free Trade, which are still so imperfectly assimilated by the nation.

So far as I can gather, the circumstances alleged to constitute a new problem are these; the need to protect special industries for war purposes; and the need to make temporary fiscal provision against industrial fluctuation set up by variations in the international money exchanges. Obviously, the first of these pleas has already gone by the board, as regards any comprehensive fiscal action.

One of the greatest of all war industries is the production of food; and during the war some supposed that after it was over, there could be secured a general agreement to protect British agriculture to the point at which it could be relied on to produce at least a war ration on which the nation could subsist without imports. That dream has already been abandoned by practical politicians, if any of them ever entertained it. The effective protection of agriculture on that scale has been dismissed as impossible; and we rely on foreign imports as before. Whatever may be said as to the need of subsidising special industries for the production of certain war material is nothing further to the fiscal purpose, whether the alleged need be real or not. The production of war material is a matter of military policy on all fours with the maintenance of Government dockyards, and does not enter into the fiscal problem properly so called. But to the special case of dyes, considered as a "key" or "pivotal" industry, I will return later.

How then stands the argument from the fluctuations of the exchanges? If that argument be valid further than to prove that *all* monetary fluctuations are apt to embarrass industry, why is it not founded on for the protection of *all* industries affected by German competition? The Prime Minister in his highly characteristic speech to the Lancashire deputation, admitted that the fall of the mark had not had "the effect which we all anticipated"—that is, which he and his advisers anticipated—and this in the very act of pretending that the *further* fall of the mark is a reason for

adhering to the course of taxing fabric gloves. All this is the temporising of men who at last realise that the case they have been putting forward will bear no further scrutiny. The idea of systematically regulating an occasional tariff in terms of the day-to-day fluctuations of the exchanges is wholly chimerical. A tariff that is on even for one year and may be off the next is itself as disturbing a factor in industry as any exchange fluctuations can be.

Nor is there, in the nature of things, any possibility of continuous advantage in trade to any country through the low valuation of its currency. The Prime Minister confesses that Germany is *not* obtaining any export trade as the result of the fall. Then the whole argument has been and is a false pretence. The plea that the German manufacturer is advantaged because his wages bill does not rise as fast as the mark falls in purchasing power is even in theory but a statement of one side of a fluctuating case, seeing that when the mark rises in value his wages bill will not fall as fast as the mark rises, and he is then, in the terms of the case, at a competitive disadvantage.

But the worst absurdity of all in the tariffist reasoning on this topic is the assumption that in no other respect than wage-rates is German industry affected by the fall of the mark. The wisecracks who point warningly to the exchanges as a reason for firm action on fabric gloves never ask how a falling currency relates to the process of purchasing raw materials from abroad. So plainly is the falling mark a bar to such purchase that there is

*prima facie* no cause to doubt the German official statement made in June, that foreign goods are actually underbidding German goods in the German markets, and that the falling exchange makes it harder and harder for Germany to compete abroad. We are dealing with a four-square fallacy, the logical implication of which is that a bankrupt country is the best advantaged for trade, that Austria is even better placed for competition than Germany, and that Russia is to-day the best placed of all.

#### TARIFFS AND WAGES

The argument from the exchanges, which is now admitted to be wholly false in practice, really brings us back to the old tariffist argument that tariffs are required to protect us against the imports of countries whose general rate of wages is lower than ours. On the one hand, they assured us that a tariff was the one means of securing good wages for the workers in general. On the other, they declared that foreign goods entered our country to the extent they did because foreign employers in general sweated their employees. That is to say—seeing that nearly all our competitors had tariffs—the tariffed countries pay the worst wages; and we were to raise ours by having tariffs also. But even that pleasing paralogism did not suffice for the appetite of tariffism in the way of fallacy. The same propaganda which affirmed the lowness of the rate of wages paid in tariffist countries affirmed also the *superiority* of the rate of wages

paid in the United States, whence came much of our imported goods which the tariffists wished to keep out. In this case, the evidence for the statement lay in the high wage-rate figures for three employments in particular—those of engine-drivers, compositors, and builders' labourers: three industries incapable of protection by tariffs.

Thus even the percentage of truth was turned to the account of delusion; for the wages in the protected industries of the States were so far from being on the scale of the others just mentioned, that they were reported at times to be absolutely below those paid in the same industries in Britain. For the rest, *costs of living* were shown by all the official statistics to be lower with us than in any of the competing tariffed countries; and in particular much lower than in the United States. There were thus established the three facts that wages were higher in the Free Trade country than in the European tariffed countries; that real wages here were higher than those of the protected industries in the United States, and that Protection was thus so far from being a condition of good wages as to be ostensibly a certain condition of bad. All the same, high wages in America and low wages on the Continent were alike given as reasons why we should have a protective tariff.

There stands out, then, the fact that the payment of lower wages by the protected foreign manufacturer was one of the tariffist arguments of the pre-war period, when there was no question of unequal currency exchanges. To-day, the argument from unequal currency exchanges is that in the country

where the currency value is sinking in terms of other currencies the manufacturer is getting his labour cheaper, seeing that wages are slow to follow increase in cost of living. Both pleas alike evade the primary truth that if country A trades with country B at all, it must receive *some* goods in payment for its exports, save in a case in which, for a temporary purpose, it may elect to import gold. But that fact is vital and must be faced if the issue is to be argued at all. Unless, then, the defender of the occasional tariff system contends that that system will rectify trade conditions by keeping out goods which are made at an artificial advantage, amounting to what is called "unfair competition," and letting in only the goods not so produced, he is not facing the true fiscal problem at all. Either he admits that exports and freight charges and other credit claims must be balanced by imports or he denies it. If he denies it, the discussion ceases: there is no use in arguing further. If he admits it, and argues that by his tariff he can more or less determine *what* shall be imported, the debate soon narrows itself to one issue.

The pre-war tariffist argued, when he dealt with the problem, that tariffs would suffice at will to keep out manufactured goods and let in only raw material. To that the answer was simple. An unbroken conversion of the whole yield of exports and freight returns and interest on foreign investments into imported raw material to be wholly converted into new products, mainly for export, was something utterly beyond the possibilities.



It would mean a rate of expansion of exports never attained, and not only not attainable but not desirable. On such a footing, the producing and exporting country would never concretely taste of its *profit*, which is to be realised, if at all, only in consumption of imported goods and foods. It is no less plainly impossible to discriminate by classes between kinds of manufactured imports on the plea that inequality in the exchanges gives the foreign competitor an advantage in terms of the relatively lower wage-rate paid by him while his currency value is falling. Any such advantage, in the terms of the case, must be held to accrue to all forms of production alike, and cannot possibly be claimed to accrue in the manufacture of one thing as compared with another, as fabric gloves in comparison with gold leaf. In a word, the refusal of protection to gold leaf is an admission that the argument from inequality of currency exchanges counts for nothing in the operation of the Safeguarding of Industries Bill. In the case of any other import, then, the argument falls.

#### MEMBERS ONE OF ANOTHER

But that is not all. The case of Russia alone has brought home to all capable of realising an economic truth the fact that the economic collapse of any large mass of population which had in the past entered into the totality of international trade is a condition of proportional impoverishment to all the others concerned. He who sees this as to Russia cannot conceivably miss seeing it as to

Germany ; even tariffist hallucinations about a "losing trade" under German tariffs cannot shut out the fact that our trade with Russia and the United States was carried on under still higher hostile tariffs. The unalterable fact remains that industrial prosperity rises and falls in the measure of the total mass of goods handled ; and men who realise the responsibility of all Governments for the material wellbeing of their populations can come to only one conclusion. Trade must be facilitated all round for our own sake.

Once more we come in sight of the truth that the industrial health of every trading country depends on the industrial health of the rest—a Free Trade truth that is perceptibly of more vital importance now than ever before. It is in the exchange of commodities, and the extension of consumption where that is required on a large scale, that the prosperity of the industrial nations consists. And to say that, is to say that until the trade exchanges of the world in general return to something like the old footing, there cannot be a return of the old degree of industrial wellbeing. Not that industrial wellbeing is to be secured by the sole means of industrial re-expansion : the question of the need of restriction of rate of increase of population is now being more and more widely recognised as vital. But the present argument is limited to the fiscal issue ; and it must suffice merely to indicate the other as being of the highest concurrent importance.

Adhering, then, to the fiscal issue, we reach the position that, just as foreign trade has been a

main source of British wealth in the past, and particularly in the Free Trade era, the wealth consumed in the war is recoverable only on the same lines. It is not merely that British shipping—at present so lamentably paralysed and denuded of earning power—cannot be restored to prosperity without a large resumption of international exchanges: a large proportion of industrial employment unalterably depends upon that resumption. And it is wholly impossible to return to pre-war levels of employment by any plan of penalising imports.

### THE DYESTUFFS ACT

How then does the persistent Free Trader relate to the special case of the "key industry," of which we heard so much during the war, and hear so little to-day? I have said that the question of maintaining any given industry on the score that it is essential for the production of war material is a matter of military administration, and not properly a matter of fiscal policy at all. But the plea, we know, has been made the ground of a fiscal proceeding by the present Government, inasmuch as the special measure known as the Dyestuffs (Import Regulation) Act of 1920 forbids for ten years the importation of dyestuffs into this country except under licence of the Board of Trade. Dyestuffs include, by definition, all the coal-tar dyes, colours, and colouring matter, and all organic intermediate products used in the manufacture of these—the last category including a large number of chemicals such as formaldehyde, formic acid, acetic acid, and

methyl alcohol. The argument is, in sum, that all this protective control is necessary to keep on foot, on a large scale, an industry which in time of war has been proved essential for the production of highly important munitions.

What has actually happened under this Act I confess I am unable to tell. Weeks ago I wrote to the President of the Board of Trade asking if, without inconvenience, he could favour me with a general account of what had been done in the matter of issuing licences, and my letter was promised attention, but up to the moment of delivering this address I have had no further reply. I can only, then, discuss the proposed policy on its theoretic merits.<sup>1</sup> The theoretic issues are fairly clear. Either the licensing power of the Board of Trade has been used to exclude competitive imports or it has not. If it has been so used, it is obvious that we have no security whatever for the maintenance of the industry in question in a state of efficiency. In the terms of the case, it is enabled to persist in the use of plant and of methods which may be inferior to those used in the countries whose competition has been excluded. Then the very object posited as the justification for the Act, the securing of a thoroughly efficient key industry necessary to the production of munitions, is not attained by the fiscal device under notice. If, on the other hand, there has been no barring of imports under the licence system, the abstention from use of it is an

<sup>1</sup>The promised statistics were soon afterwards sent to Mr. Robertson by the Board of Trade. They will be found in the *Liberal Magazine* for September, 1922, p. 348.—ED.

admission that it was either unnecessary or injurious or was felt to be useless for its purpose.

And the common-sense verdict on the whole matter is that if continuous and vigilant research and experiment in the chemistry of dye-making is held to be essential to the national safety, the proper course is for the Government to establish and maintain a department or arsenal for such research and experiment, unhampered by commercial exigencies. Such an institution may or may not be well managed. But a dividend-earning company, necessarily concerned first and last with dividend earning, and at the same time protected against foreign competition in the sale of its products, cannot be for the purpose in question well managed, being expressly enabled and encouraged to persist in out-of-date practices.

This being so, the whole argument for protection of key industries goes by the board. It has been abandoned as to agriculture, surely the most typical key industry of all ; and it has never even been put forward in regard to shipbuilding, the next in order of importance. For the building of ships of war the Government has its own dockyards : let it have its own chemical works, if that be proved to be necessary. Protection cannot avail. If the Dyestuffs Act is put in operation so as to exclude the competition of foreign chemicals, it not only keeps our chemists in ignorance of the developments of the industry abroad : it raises the prices of dyestuffs against the dye-using industries at home, and thereby handicaps them dangerously in their never-ending competition with the foreign

industries, German and other, which offer the same goods in foreign markets.

The really fatal competition is never that of goods produced at low wages-cost. It is that of superior goods; and if foreign textiles have the aid of better dyes than are available to our manufacturers our industry will be wounded incurably. It appears in fact to be the superior quality of German fabric gloves, and not their cheapness, that has hitherto defeated the competition of the native product. To protect inferior production is simply the road to ruin for a British industry. Delicacy in dyes, in the pre-war days, gave certain French woollen goods an advantage over ours in our own markets; yet we maintained our vast superiority in exports by the free use of all the dyes available. Let protection operate all round, and our foreign markets will be closed to us by our own political folly. Textiles which are neither well-dyed nor cheap will be unsaleable against better goods.

#### THE PARIS RESOLUTIONS

It is of a piece with that prodigy of self-contradiction that, when the Liberal leaders in the House of Commons expose the absurdity of professing to rectify the German exchanges by keeping out German fabric gloves, a tariffist leader replies by arguing that the Paris Resolutions of the first Coalition Government, under Mr. Asquith, conceded the necessity of protecting home industries against unfair competition. Men who are normally

good debaters seem, when they are fighting for a tariff, to lose all sense of the nature of argument. As has been repeatedly and unanswerably shown by my right hon. friend the Chairman, the Paris Resolutions were expressly framed to guard against a state of things which has never supervened—a state of things then conceived as possible after a war without a victory, but wholly excluded by the actual course of the war. And those Resolutions, all the same, expressly provided that each consenting State should remain free to act on them upon the lines of its established fiscal system, Britain being thus left untrammelled as to its Free Trade policy.

Having regard to the whole history, Free Traders are entitled to say that the attempt of tariffists to cite the Paris Resolutions in support of the pitiful policy of taxing imports of German fabric gloves, or the rest of the ridiculous “litter of mice” that has thus far been yielded by the Safeguarding of Industries Act, is the crowning proof at once of the insincerity and ineptitude of tariffism where it has a free hand, and of the adamant strength of the Free Trade case. If any further illustration were needed, it is supplied by the other tariffist procedure in regard to the promise made five years ago to Canada that she, with the other Dominions, should have a relative preference in our markets for her products. In so far as that plan involved an advantage to our own Dominions over the Allies who, equally with them, bore with us the heat and burden of the war, it was as impolitic as it was unjust, and as unflattering as it was impolitic, inasmuch as it assumed that the Dominions

wanted a "tip" as a reward for their splendid comradeship.

As it turns out, the one concession that Canada really wanted was the removal of the invidious embargo on Canadian store cattle in our ports. And whereas a promise to that effect was actually given by the tariffist Coalition during the war, it is only after five years that the promise is about to be reluctantly fulfilled. It was a promise, be it observed, of *free importation*, and it is fulfilled only out of very shame. It may be surmised, indeed, that the point of the possible lifting of the Canadian embargo was used during the negotiations with Ireland to bring the Sister State to terms; and that its removal may lead to new trouble in that direction. But that is another story, with which Free Traders are not concerned. Their withers are unwrung.

#### SCIENCE AND EXPERIENCE

On the total survey, then, the case for Free Trade is not only unshaken, it is stronger than ever before, were it only because many of the enemy have visibly lost faith in their own cause. The Coalition, in which professed Liberals were prepared to sacrifice something of Free Trade to colleagues who were pledged in the past to destroy it, has quailed before the insuperable practical difficulties which arise the moment the scheme of destruction is sought to be framed.

All that has resulted, after four and a half years, is a puerile tinkering with three or four small



industries—a tinkering that is on the face of it open to suspicion of political corruption. To intelligent Free Traders there is nothing in it all that can give the faintest surprise. They knew their ground. The doctrine of Free Trade is *science*, or it is nothing. It is not a passing cry of faction, or a survival of prejudice, but the unshakable inference of a hundred years of economic experience verifying the economic science on which the great experiment was founded.

On the other hand, let me say, the tactic of tinkering with Free Trade under a system of special committees who make decisions that only the House of Commons should ever be able to make, is a “felon blow” at self-government. It puts national affairs under the control of cliques, amenable to the pressures of private interests. Millions of men and women are thus taxable in respect of their living-costs at the caprice of handfuls of men appointed to do for a shifty Government what it is afraid to do for itself. It is a vain thing to have secured by statute that the House of Commons shall be the sole authority in matters of taxation, if the House of Commons basely delegates its powers to unrepresentative men. Here, as so often in the past, the Free Trade issue lies at the heart of sound democratic politics; and if the nation does not save its liberties in the next election it will pay the price in corrupted politics no less than in ruined trade.

# INDIA

BY SIR HAMILTON GRANT

K.C.S.I., K.C.I.E.; Chief Commissioner, North-West Frontier Province, India; Deputy Commissioner of various Frontier districts; Secretary to Frontier Administration; Foreign Secretary, 1914-19; negotiated Peace Treaty with Afghanistan, 1919.

SIR HAMILTON GRANT said:—I have been asked to address you on the subject of India, that vast, heterogeneous continent, with its varied races, its Babel of languages, its contending creeds. There are many directions in which one might approach so immense a topic, presenting, as it does, all manner of problems, historical, ethnological, linguistic, scientific, political, economic, and strategic. I do not propose, however, to attempt to give you any general survey of those questions, or to offer you in tabloid form a resumé of the matters that concern the government of India. I propose to confine my remarks to two main questions which appear to be of paramount importance at the present time, and which, I believe, will be of interest to those here present to-day, namely, the problems of the North-West Frontier, and the question of internal political unrest.

Let me deal first with the North-West Frontier. As very few schoolboys know, we have here a dual boundary—an inner and an outer line. The inner line is the boundary of the settled districts of the

North-West Frontier Province, the boundary, in fact, of British India proper, and is known as the Administrative border. The outer line is the boundary between the Indian Empire and Afghanistan, and is commonly known as the Durand line, because it was settled by Sir Mortimer Durand and his mission in 1895 with the old Amir Abdur Rahman. These two lines give us three tracts to be dealt with—first, the tract inside the inner line, the settled districts of the North-West Frontier Province, inhabited for the most part by sturdy and somewhat turbulent Pathans; second, the tract between the two lines, that welter of mountains where dwell the hardy brigand hillmen: the tribes of the Black Mountain, of Swat and Bajur, the Mohmands, the Afridis, the Orakzais, the Wazirs, the Mahsuds, and a host of others, whose names from time to time become familiar according as the outrageousness of their misconduct necessitates military operations: third, the country beyond the outer line, “the God-granted kingdom of Afghanistan and its dependencies.”

Now each of these tracts presents its own peculiar problems, though all are intimately inter-connected and react one on the other. In the settled districts we are confronted with the task of maintaining law and order among a backward but very virile people, prone to violence and impregnated with strange but binding ideas of honour, for the most part at variance with the dictates of the Indian Penal Code. For this reason there exists a special law called the Frontier Crimes Regulation, a most valuable enactment enabling us to deal with cases

through local Councils of Elders, with the task of providing them with education, medical relief, etc., in accordance with their peculiar needs, and above all with the task of affording them protection from the raids and forays of their neighbours from the tribal hills. In the tribal area we are faced with the task of controlling the wild tribesmen. This control varies from practically direct administration as in the Lower Swat and Kurram valleys to the most shadowy political influence, as in the remote highlands of Upper Swat and the Dir Kohistan, where the foot of white man has seldom trod. Our general policy, however, with the tribes is to leave them independent in their internal affairs, so long as they respect British territory and certain sacrosanct tracts beyond the border, such as the Khyber road, the Kurram, and the Tochi. The problem is difficult, because when hardy and well-armed hereditary robbers live in inaccessible mountains which cannot support the inhabitants, overlooking fat plains, the temptation to raid is obviously considerable: and when this inclination to raid is reinforced by fanatical religion, there must be an ever-present likelihood of trouble.

#### FRONTIER RAIDS

Few people here in England reading of raids on the North-West Frontier in India realise the full horror of these outrages. What generally happens is that in the small hours of the morning, a wretched village is suddenly assailed by a gang of perhaps

50, perhaps 200, well-armed raiders, who put out sentries, picket the approaches, and conduct the operation on the most skilful lines. The houses of the wealthiest men are attacked and looted; probably several villagers are brutally murdered—and probably one or two unhappy youths or women are carried off to be held up to ransom. Sometimes the raid is on a larger scale, sometimes it is little more than an armed dacoity. But there is nearly always a tale of death and damage. Not infrequently, however, our troops, our militia, our frontier constabulary, our armed police, or the village *chigha* or hue-and-cry party are successful in repelling and destroying the raiders. Our officers are untiring in their vigilance, and not infrequently the district officers and the officers of their civil forces are out three or four nights a week after raiding gangs. Statistics in such matters are often misleading and generally dull, but it may be of interest to state that from the 1st April, 1920, to the 31st March, 1921, when the tribal ebullition consequent on the third Afghan war had begun to die down, there were in the settled districts of the North-West Frontier Province 391 raids in which 153 British subjects were killed and 157 wounded, in which 310 British subjects were kidnapped and some £20,000 of property looted. These raids are often led by outlaws from British territory; but each tribe is responsible for what emanates from or passes through its limits—and when the bill against a tribe has mounted up beyond the possibility of settlement, there is nothing for it but punitive military operations. Hence the large

number of military expeditions that have taken place on this border within the last half century.

Now this brings us to the question so often asked by the advocates of what is called the Forward policy: "If the tribes give so much trouble, why not go in and conquer them once and for all and occupy the country up to the Durand line?" It sounds an attractive solution, and it has frequently been urged on paper by expert soldiers. But the truth is that to advance our frontier only means advancing the seat of trouble, and that the occupation of tribal territory by force is a much more formidable undertaking than it sounds. We have at this moment before us a striking proof of the immense difficulty and expense of attempting to tame and occupy even a comparatively small tract of tribal territory in the Waziristan operations. Those operations have been going on for two and a half years. At the start there were ample troops, ample equipment, and no financial stringency. The operations were conducted, if a layman may say so, with skill and determination, and our troops fought gallantly. But what is the upshot? We managed to advance into the heart of the Mahsud country on a single line, subjected and still subject to incessant attacks by the enemy; but we are very little nearer effective occupation than when we started; and now financial stringency has necessitated a material alteration in the whole programme, and we are reverting more or less to the methods whereby we have always controlled the tribes, namely, tribal levies or *khassadars*

belonging to the tribe itself, frontier militia or other armed civil force, backed by troops behind.

### FRONTIER POLICY

And for my own part I believe this is the best solution. We must not expect a millennium on the North-West Frontier. The tribal lion will not lie down beside the district lamb in our time, and we must deal with the problem as best we can in accordance with our means, and to this end my views are briefly as follows:—

(1) We should do everything possible to provide the younger trans-border tribesmen with all honourable employment for which they are suited: service in the army, in the frontier civil forces, and in the Indian police or similar forces overseas, and we should give labour and contracts as far as possible to tribesmen for public works in their vicinity. For the problem is largely economic. Unless the lion gets other food he is bound to cast hungry eyes on the lamb.

(2) We should do all that is possible to establish friendly relations with the tribal elders through selected and sympathetic political officers, to give them, by means of subsidies for service, an interest in controlling the hot-bloods of their tribe, and, where possible, to give them assistance in education and enlightenment. We must remember that we have duties to the tribes as well as rights against them.

(3) We should extend the *khassadar* or levy system; that is, we should pay for tribal corps to

police their own borders, arming themselves and providing their own ammunition and equipment. In this way we give honourable employment and secure an effective safeguard against raiders without pouring more arms into tribal territory.

(4) We must have efficient irregular civil forces, militia, frontier constabulary, and police, well paid and contented.

(5) We should revert to the old system of a separate frontier force in the army, specially trained in the work of guarding the marches. Those who remember the magnificent old Punjab frontier force will agree with me in deploring its abolition in pursuance of a scheme of army reorganisation.

(6) We should improve communications, telephones, telegraphs, and lateral M.T. roads.

(7) We should give liberal rewards for the interception and destruction of raiding gangs, and the rounding up of villages from which raids emanate.

(8) We should admit that the Amir of Afghanistan for religious reasons exercises a paramount influence over our tribes, and we should get him to use that influence for the maintenance of peace on our common border. It has been the practice of our statesmen to adopt the attitude that because the Amir was by treaty precluded from interfering with our tribes, therefore he must have nothing to do with them. This is a short-sighted view. We found during the Great War the late Amir's influence, particularly over the Mahsuds, of the greatest value, when he agreed to use it on our behalf.

(9) Finally, there is a suggestion afoot that the



settled districts of the North-West Frontier Province should be re-amalgamated with the Punjab. I have shown, I think, clearly, how inseparable are the problems of the districts, the tribal area, and of Afghanistan ; and any attempt to place the districts under a separate control could only mean friction, inefficiency, and disaster. The proposal is, indeed, little short of administrative lunacy. There is, however, an underlying method in the madness that has formulated it, namely, the self-interest of a clever minority, which I need not now dissect. I trust that if this proposal should go further it will be stoutly resisted.

#### AFGHANISTAN

Let me now turn to Afghanistan. Generally speaking, the story of our dealings with that country has been a record of stupid, arrogant muddle. From the days of the first Afghan war, when an ill-fated army was despatched on its crazy mission to place a puppet king, Shah Shuja, on the throne of Afghanistan, our statesmen have, with some notable exceptions, mishandled the Afghan problem. And yet it is simple enough in itself. For we want very little of Afghanistan, and she does not really want much of us. All we want from the Amir is good-neighbourliness ; that he should not allow his country to become the focus of intrigue or aggression against us by Powers hostile to us, and that he should co-operate with us for the maintenance of peace on our common border. All he wants of us is some assistance in

money and munitions for the internal and external safeguarding of his realm, commercial and other facilities, and honourable recognition, for the Afghan, like the Indian, has a craving for self-respect and the respect of others.

Now, where our statesmen have failed is in regarding Afghanistan as a petty little State to be browbeaten and ordered about at our pleasure, without recognising the very valuable cards that the Amir holds against us. He sees his hand and appraises it at its value. He knows, in the first place, that nothing can be more embarrassing to us than the necessity for another Afghan war, and the despatch of a large force to the highlands of Kabul, to sit there possibly for years as an army of occupation, in a desolate country, incapable of affording supplies for the troops, at enormous cost which could never be recovered, and at the expense of much health and life, with no clear-cut policy beyond. He knows, in the second place, that such a war would be the signal for the rising of practically every tribe along our frontier. The cry of *Jehad* would go forth, as in the third Afghan war, and we should be confronted sooner or later with an outburst from the Black Mountain to Baluchistan—a formidable proposition in these days. He knows, in the third place, that with Moslem feeling strained as it is to-day on the subject of Turkey, there would be sympathy for him in India, and among the Moslem troops of the Indian army. Now these are serious considerations, but I do not suggest that they are so serious as to make us tolerate for a moment an offensive or unreasonable

attitude on the part of the Amir. If the necessity should be forced on us, which God forbid, we should face the position with promptitude and firmness and hit at once; and apart from an advance into Afghanistan we have a valuable card in the closing of the passes and the blockade of that country.

All I suggest is that in negotiating with Afghanistan, we should remember these things and should not attempt to browbeat a proud and sensitive ruler, who, however inferior in the ordinary equipment for regular war, holds such valuable assets on his side. And my own experience is that the Afghans are not unreasonable. Like every one else, they will "try it on," but if handled courteously, kindly, with geniality, and, above all, with complete candour, they will generally see reason. And remember one thing. In spite of all that has happened, our mistakes, our bluster, our occasional lapses from complete disingenuousness, the Afghans still like us. Moreover, their hereditary mistrust of Russia still inclines them to lean on us. We have lately concluded a treaty with Afghanistan—not by any means a perfect treaty, but the best certainly that could be secured in the circumstances, and we have sent a Minister to Kabul, Lt.-Colonel Humphrys, who was one of my officers on the frontier. A better man for the post could not, I believe, be found in the Empire. Unless unduly hampered by a hectoring diplomacy from Whitehall, he will succeed in establishing that goodwill and mutual confidence which between Governments is of more value than all the paper

engagements ever signed. One word more of the Afghans. There is an idea that they are a treacherous and perfidious people. This, I believe, is a wicked slander, so far as the rulers are concerned. In 1857, during the Indian Mutiny, the Amir Dost Muhammed was true to his bond, when he might have been a thorn in our side; and during the Great War the late Amir Halilullah, in the face of appalling difficulties, maintained the neutrality of his country. as he promised, and was eventually murdered, a martyr to his own good faith to us.

#### INTERNAL UNREST

Let me now turn to our second question : internal political unrest. In clubs and other places where wise men in arm-chairs lay down the law about affairs of state, one constantly hears expressions of surprise and indignation that there should be any unrest in India at all. "We have," say the die-hard wiseacres, "governed India jolly well and jolly honestly, and the Indians ought to be jolly grateful instead of kicking up all this fuss. If that meddling Montagu had not put these wicked democratic ideas into their heads, and stirred up all this mud, we should have gone on quite comfortable as before." But if we face the facts squarely, we shall see that the wonder is not that there has been so much, but that there has been so comparatively little unrest, and that India should, on the whole, have waited so patiently for a definite advance towards self-government.

What are the facts? They are these. Partly

by commercial enterprise, partly by adroit diplomacy, partly by accident, largely by the valour of our arms, we have obtained dominion over the great continent of India. We have ruled it for more than a century through the agency of a handful of Englishmen, alien in creed, colour, and custom from the people whom they rule—men who do not even make their permanent homes in the land they administer. Now, however efficient, however honest, however impartial, however disinterested such a rule may be, it cannot obviously be really agreeable to the peoples ruled. This is the fundamental weakness of our position. That our rule on these lines has lasted so long and has been so successful is due not to the fact alone that it has been backed by British bayonets, but rather to the fact that it has been remarkably efficient, honest, just, and disinterested—and, above all, that we have in the past given and secured goodwill.

Superimposed on this underlying irritant, there have been of late years a number of other more direct causes of unrest. Education, which we gave to India and were bound to give, had inevitably bred political aspiration, and an *intelligensia* had grown up hungry for political rights and powers. Simultaneously the voracious demands of a centralised bureaucracy for reports and returns had left the district officer little leisure for that close touch with the people which in the past meant confidence and goodwill. Political restlessness had already for some years begun to manifest itself in anarchical conspiracies and crimes of violence,

when the Great War began. In India, as elsewhere, the reflex action of the war was a disturbing element. High prices, stifled trade, high taxation, nationalist longings and ideas of self-determination and self-government served to reinforce subterranean agitation.

But throughout the war India not only remained calm and restrained, but her actual contribution to the war, in men and material, was colossal and was ungrudgingly given. She had a right to expect in return generous treatment ; but what did she get ? She got the Rowlatt Bill. Now, of course, there was a great deal of wicked, lying nonsense talked by agitators about the provisions of the Rowlatt Bill, and the people were grossly misled. But the plain fact remains that when India had emerged from the trying ordeal of the war, not only with honour untarnished, but having placed us under a great obligation, our first practical return was to pass a repressive measure, for fear, forsooth, that if it was not passed then it might be pigeon-holed and forgotten. India asked for bread and we gave her a stone—a stupid, blundering act, openly deprecated at the time by all moderate unofficial opinion in India. What was the result ? The Punjab disturbances and the preventive massacre of the Jallianwala Bagh. I do not propose to dwell on this deplorable and sadly mishandled matter, save to say that so far from cowing agitation, it has left a legacy of hate that it will take years to wipe out ; and that the subsequent action of a number of ill-informed persons in raising a very large sum of money for the officer responsible for

that massacre has further estranged Indians and emphasised in their eyes the brand of their subjection.

### THE RISE OF GHANDI

To India, thus seething with bitterness over the Punjab disturbances, there was added the Moslem resentment over the fate of Turkey. I was myself in London and Paris in a humble capacity at the Peace Conference, and I know that our leading statesmen were fully informed of the Moslem attitude and the dangers of unsympathetic and dilatory action in this matter. But an arrogant diplomacy swept all warnings aside and scorned the Moslem menace as a bogey. What was the result? Troubles in Egypt, in Mesopotamia, Kurdistan, Afghanistan, and the Khilifat movement in India. Hindu agitators were not slow to exploit Moslem bitterness, and for the first time there was a genuine, if very ephemeral, *entente* between the two great rival creeds.

It was in this electric atmosphere that Ghandi, emerging from his ascetic retirement, found himself an unchallenged leader. Short of stature, frail, with large ears, and a gap in his front teeth, he had none of the outward appearance of dominance. His appeal lay in the simplicity of his life and character, for asceticism is still revered in the East. But his intellectual equipment was mediocre, his political ideas nebulous and impracticable to a degree, his programme archaic and visionary; and from the start he was doomed to fail. The *Hijrat*

movement which he advocated brought ruin to thousands of Moslem homes ; his attack on Government educational establishments brought disaster to many youthful careers ; non-co-operation fizzled out. Government servants would not resign their appointments, lawyers would not cease to practise, and title-holders, with a few insignificant exceptions, would not surrender their titles ; the " back to the spinning-wheel " call did not attract, and the continual failure of Ghandi's predictions of the immediate attainment of complete *Swaraj* or self-government, which he was careful never to define, like hope deferred turned the heart sick.

From being a demi-god Ghandi gradually became a bore, and when he was at last arrested, tragic to relate, there was hardly a tremor of resentment through the tired political nerves of India. The arrest was indeed a triumph of wise timing that does credit to the sagacity of the Government of India. Had the arrest been effected when the name of Ghandi was at its zenith, there would have been widespread trouble and bloodshed. As it was, people were only too glad to be rid of a gadfly that merely goaded them into infructuous bogs.

I apologise for this long excursus on the somewhat threadbare subject of the causes of unrest in India. But I want those here present to realise what potent forces have been at work and to believe that the Indian generally is not the ungrateful, black-hearted seditious he is painted by the reactionary press. India is going through an inevitable stage of political transition, and we must not hastily judge her peoples—for the most part so gallant,



so kindly, so law-abiding, so lovable—by the passing tantrums of political puberty.

### THE PRESENT SITUATION

As things stand at present, there is a remarkable lull. It would be futile to predict whether it will last. It is due in part, as I have suggested, to general political weariness, in part to the drastic action taken against the smaller agitating fry, in part to the depletion of the coffers of the extremists, in part to the fact that the extremists are quarrelling amongst themselves as to their future programme. Some are for continuing a boycott of the Councils; others are for capturing all the seats and dominating the legislature; others are for re-beating the dead horse of non-co-operation. Meanwhile, with disunion in the extremist camp, the Councils conduct their business on moderate lines, and, so far as one can judge, with marked temperance and sanity.

The work of the first Councils has indeed been surprisingly good, and augurs well for the future. India has not yet, of course, by any means grasped the full significance of representative government. The party system is still in embryo, although two somewhat vague and nebulous parties calling themselves the "Nationalists" and the "Democrats" do exist. But these parties have no clear-cut programme, and they do not follow the lead of the Ministers, who are regarded, not as representing the elected members of the Council, but as newly-appointed additional members of the official

bureaucracy. There will doubtless in time be a gradual sorting of politicians into definite groups, but there are two unbridgeable gulfs in the Indian social system which must always militate against the building up of a solid political party system: first, the gulf between Hindu and Moslem, which still yawns as wide as ever, and second, the gulf between the Brahman and the "untouchables," who, by the way, have found their fears that they would be downtrodden under the new Councils completely baseless.

There are and must be breakers ahead. Some we can see, and there are doubtless others still bigger which we cannot yet glimpse over the welter of troubled waters. What we can see is this: first, there is a danger that unless Government and the Councils together can before the next elections in 1923-24 take definite steps towards the industrial development and the self-defence of India, the extremist party are likely to come in in full force and to create a deadlock in the administration; second, unless the Councils continue to accept a fiscal policy in accordance with the general interests of Great Britain and the Empire, there will be trouble. The fiscal position is obscure, but it is the crux, for the Councils can indirectly stultify any policy distasteful to them, and this too may mean a deadlock; third, there is a danger that the Indianisation of the Services will advance much more rapidly than was ever contemplated, or than is desirable in the interests of India for many years to come, for the simple reason that capable young Englishmen of the right stamp will not,

without adequate guarantees for their future, accept employment in India. Those guarantees can be given satisfactorily by one authority alone, and that is by the Indian Legislatures voicing popular opinion. For a complex administration bristling with technical questions, administrative, political, and economic, it is essential that India should have for many years to come the assistance of highly-educated Britons with the tradition of administration in their blood. The Councils will be wise to recognise this and make conditions which will secure for them in the future as in the past the best stamp of adventurous Briton.

Finally, the Montagu-Chelmsford scheme, though a capable and conscientious endeavour to give gradual effect to a wise and generous policy, has of necessity its weak points. The system of diarchy—of allotting certain matters to the bureaucratic authority of the Viceroy and of the Provincial Governors and other matters to the representatives of the people—is obviously a stop-gap, which is already moribund. The attempt to fix definite periods at which further advances towards self-government can be considered is bound to fail: you cannot give political concessions by a stop-watch; the advance will either be much more rapid or much slower than the scheme anticipates. Again, the present basis of election is absurdly small, but any attempt to broaden it must tend towards adult suffrage, which in itself would appear impracticable with a population of over 200 millions.

## OUR DUTY TO INDIA

It is a mistake, however, in politics to look too far ahead. Sufficient unto the day. For the time being we may be certain of one thing, and that is that we cannot break the Indian connection and leave India. Both our interests and our obligations demand that we should remain at the helm of Indian affairs for many years to come. That being so, let us accept our part cheerfully and with goodwill as in the past. Let us try to give India of our best, as we have done heretofore. Let us regive and regain, above all things, goodwill. Let us not resent the loss of past privilege, the changes in our individual status, and let us face the position in a practical and good-humoured spirit. Let us abandon all talk of holding India by the sword, as we won it by the sword—because both propositions are fundamentally false. Let us realise that we have held India by integrity, justice, disinterested efficiency—and, above all, by goodwill—and let us continue to co-operate with India in India for India on these same lines.

# EGYPT

BY J. A. SPENDER

Editor of the *Westminster Gazette*, 1896 to 1922 ; Member of the Special Mission to Egypt, 1919-1920.

MR. SPENDER said :—The Egyptian problem resembles the Indian and all other Eastern problems in that there is no simple explanation or solution of it. Among the many disagreeable surprises which awaited us after the war, none was more disagreeable than the discovery in March, 1919, that Egypt was in a state of rebellion. For years previously we had considered Egypt a model of imperial administration. We had pulled her out of bankruptcy and given her prosperity. We had provided her with great public works which had enriched both pasha and fellah. We had scrupulously refrained from exploiting her in our own interests. No man ever worked so disinterestedly for a country not his own as Lord Cromer for Egypt, and if ever a Nationalist movement could have been killed by kindness, it should have been the Egyptian. Nor were the Egyptian people ungrateful. I have talked to Egyptian Nationalists of all shades, and seldom found any who did not handsomely acknowledge what Great Britain had done for Egypt, but they asked for one thing more, which was that she should restore them their independence. "We won it from the Turks,"

they said, "and we cannot allow you to take it from us."

This demand was no new thing, but it was brought to a climax by events during and after the war. When the war broke out, our representative in Egypt was still only "Agent and Consul-General," and was theoretically and legally on the same footing with the representative of all other Powers; when it ended, he was "High Commissioner," governing by martial law under a system which we called a "protectorate." This to the Egyptians seemed a definite and disastrous change for the worse. Throughout the forty years of our occupation we have most carefully preserved the theory of Egyptian independence. We have occupied and administered the country, but we have never annexed it or claimed it to be part of the British Empire. We intervened in 1882 for the purpose of restoring order, and five years later we offered to withdraw, and were only prevented from carrying out our intention because the Sultan of Turkey declined, at the instigation of another Power, to sign the Firman which gave us the right of re-occupying the country if order should again be disturbed. In the subsequent years we gave repeated assurances to Egyptians and to foreign Powers that we had no intention of altering the status of the country as defined in its theoretical government by Khedive, Egyptian Ministers, and Egyptian Council or Assembly. And though it was true that in virtue of the army of occupation we were in fact supreme, by leaving the forms of their government untouched and refraining from all steps to legalise our position

we reassured the Egyptians as to our ultimate objects.

In the eyes of the Egyptians the proclamation of the Protectorate and the conversion of the "Agent and Consul-General" into a "High Commissioner" armed with the weapons of martial law seriously prejudiced this situation, and though they acquiesced for the period of the war, they were determined to have a settlement with us immediately it was over, and took us very seriously at our word when we promised to review the whole situation when that time came. The truth about the "Protectorate" was that we adopted it as a way out of the legal entanglement which would otherwise have converted the Egyptians into enemy aliens when their suzerain, the Sultan of Turkey, entered the war against us, and we did it deliberately as the preferable alternative to annexing the country. But we have neither explained to the Egyptians nor made clear to ourselves what exactly we meant by it, and in the absence of explanations it was interpreted in Egypt as a first step to the extinction of Egyptian nationality.

#### AFTER-WAR MISTAKES

Had we acted wisely and expeditiously at the end of the war we might even then have avoided the trouble that followed. But when Egyptian ministers asked leave to come to London in December, 1918, we answered that the time was not opportune for these discussions, and when the Nationalist leaders proposed to send a delegation,

we said that no good purpose could be served by their coming to Europe. This heightened the alarm, and the Nationalists retorted by raising their claims from "complete autonomy" to "complete independence," and started a violent agitation. The Government retaliated by deporting Zaghul to Malta, whereupon the country broke into rebellion. Lord Allenby now came upon the scene, and, while suppressing the rebellion, released Zaghul and gave him and his delegation the permission to go to Europe which had been refused in January. It was now decided to send out the Milner Mission, but there was a further delay of seven months before it started, and during all that time agitation continued.

When the Mission arrived it quickly discovered that there was no possible "Constitution under the Protectorate" which would satisfy the Egyptians, and that the sole alternatives were further suppression or the discovery of some means of settlement which dispensed with the Protectorate. The Mission unanimously came to the conclusion that though the first was mechanically possible if the cost and discredit were faced, the second was not only feasible but far preferable, and that the right method was a treaty of Alliance between Great Britain and Egypt, recognising Egypt as a sovereign State, but affording all necessary guarantees for imperial interests. Working on those lines the Mission gradually broke down the boycott proclaimed against them, convinced the Egyptians of their goodwill, induced all parties of Egyptian Nationalists to come to London, and there negotiated



the basis of the Treaty which was described in the Report. The main points were that there must be a British force in the country—not an army of occupation, but a force to guard Imperial communications—that there must be British liaison officers for law and order and finance, that the control of foreign policy must remain in the hands of Great Britain, and that the Soudan settlement of 1898 must remain untouched, but that with these exceptions the Government of Egypt should be in fact what it had always been in theory: a Government of Egyptians by Egyptians.

Had the Government accepted this in December, 1920 (instead of in March, 1922), and instructed Lord Milner to go forward and draft a treaty on this basis, it is extremely probable that a settlement would have been reached in a few weeks; but Ministers, unhappily, were unable to make up their minds, and there was a further delay of three months before the Egyptian Prime Minister, Adli Pasha, was invited to negotiate with the Foreign Office. By this time the Nationalist parties which the Mission had succeeded in uniting on a common platform had fallen apart, and the extremists once more started a violent agitation and upbraided the moderates for tamely waiting on the British Government, which had evidently meant to deceive them. The situation had, therefore, changed again for the worse when Adli came to London in April, 1921, and it was made worse still by what followed. The negotiations dragged over six months, and finally broke down for reasons that have never been explained, but the probability is that Egypt

had now got entangled in Coalition domestic politics, and that the "Die-Hards" claimed to have their way in Egypt in return for their consent to the Irish settlement. The door was now banged in the face of all schools of Egyptian Nationalists, and Lord Allenby was instructed to send to the Sultan the unhappy letter in which Egypt was peremptorily reminded that she was a "part of the communications of the British Empire," and many other things said which were specially calculated to wound Egyptian susceptibilities.

The Egyptian Prime Minister resigned, and for the next five months Lord Allenby endeavoured to govern the country by martial law without an Egyptian Ministry. Then he came to London with the unanimous support of British officials in Egypt to tell the Government that the situation was impossible and a settlement imperative. The Government gave way and British policy was again reversed, but three opportunities had now been thrown away, and at the fourth time of asking the difficulties were greatly increased. The Nationalists were now divided and the Moderates in danger of being violently attacked if they accepted a moderate solution. It was found necessary to deport Zaghul Pasha and to put several of his chief adherents on trial. Suspicions had been aroused by the delays and vacillations of the British Government. A settlement by treaty was now impossible, and Lord Allenby had to give unconditionally the recognition of sovereignty which the Mission intended to be part of the treaty, putting the Egyptians under an honourable pledge

to respect British rights and interests. In the circumstances there was nothing else to do, but it is greatly to be desired that when the constitution has been completed and the new Assembly convened, an effort should be made to revert to the method of the treaty which particularly suited the Egyptian character and would be regarded as a binding obligation by Egyptians.

### THE HOPE OF THE FUTURE

In regard to the future, there is only one thing to do and that is to work honestly to its logical conclusion the theory now adopted, that Egypt is a self-governing independent State. Egyptians must be encouraged to shoulder the full responsibilities of a self-governing community. It would be folly to maintain a dual system which enabled an Egyptian Government to shunt the difficult or disagreeable part of its task on to a British High Commissioner. Whatever the system of Government, there is no escape for either party from the most intimate mutual relations. Geography and circumstances decree them, but there is no necessary clash between the imperial interests which require us to guard the highway to the East that runs through Egyptian territory, and the full exercise of their national rights by Egyptians. Egyptians must remember that for many years to come the world will hold us responsible for law and order and solvency in Egypt, and we on our part must remember that Egyptians have the same pride in their country as other peoples, and that they will

never consent to regard it as merely and primarily "a communication of the British Empire." In any wise solution of the question any sudden breach with the past will be avoided, and Egyptians will of their own free will enlist the aid of British officials who have proved their devotion to the country by loyal and skilful service. The hope of the future lies in substituting a free partnership for a domination of one race by the other, and with a genial and good-humoured people, such as the Egyptians essentially are, there should be no difficulty in restoring friendship and burying past animosities. But there must be a real determination on both sides to make Egyptian independence a success and no disposition on either to give merely a reluctant consent to the conditions agreed upon by them and then to throw the onus of failure on the others.

I deeply regret the schism between the different schools of Nationalists in Egypt. As we have seen in Ireland, Nationalism is threatened from within as well as from without, and it is a great misfortune that in settling the Egyptian problem we missed the moment in 1920 when the different Nationalist parties were all but united on a common platform. Extremist leaders have the power of compelling even their friends to deport them and treat them as enemies, and I assume that Zaghlul put Lord Allenby under this compulsion, when he decided that his deportation was necessary. But Zaghlul was one of the few Nationalist leaders who were of peasant origin, and his followers stand for something that needs to be strongly represented

in the Government if it is not to take its complexion merely from the towns and the wealthy interests. The fellah is a very different man from what he was in the days of Ismail, and it is improbable that he will again submit to oppression as his forefathers did, but it is eminently desirable that there should be in the Government men whom he would accept as leaders and whom he could trust to speak for him.

Above all, it is to be hoped that, having conceded the independence of Egypt, we shall not slip back into governing the country by martial law with the aid of one party among the Egyptians. That would be merely an evasion of the difficulty and a postponement of troubles. There are a good many difficulties yet to be overcome, and the progress of events will need careful watching by Liberals in and out of the House of Commons, but if at length we steer a straight course and bring political good sense to the details of the problem, there is no reason why we should not satisfy the Egyptians and put Anglo-Egyptian relations on a good and enduring basis. In dealing with Egypt as with all Eastern countries, it should constantly be borne in mind that manners, character, and personality are a chief part of good politics. To a very large extent the estrangement has been caused by a failure to understand and respect the feelings of the Egyptian people, and here, as in India, it is important to understand that the demand of the Eastern man is not only for self-government, but also for a new status which will enable him to maintain his self-respect in his dealings with the West.

# THE MACHINERY OF GOVERNMENT

BY RAMSAY MUIR

Professor of Modern History in the University of  
Manchester, 1913 to 1921.

MR. RAMSAY MUIR said :—One of the most marked, and one of the most ominous, features of the political situation to-day is that there is an almost universal decline of belief in and respect for our system of government. This undermining of the confidence that a healthy community ought to feel in its institutions is a perturbing fact which it is the plain duty of all good Liberals to consider seriously. We need not be deterred by the old gibe that Liberalism has always cared more about political machinery than about social reorganisation. The gibe was never true. But, in any case, no projects of social reorganisation have much chance of success unless the political machinery by means of which they have to be carried into effect is working efficiently. Moreover, since most of the projects of social reform which are being urged upon our attention involve an enlargement of the activities of the State, it is obvious that we shall be running the risk of a breakdown unless we make sure that the machinery of the State is capable of meeting the demands which are made upon it. We must be satisfied that our engine has sufficient power

before we require it to draw a double load. In truth, one reason why the engine of government is not working well is that it has been required to do a great deal more work than it was designed for. The time has come to consider carefully the character and capacity of our machinery of government in view of the increased demands which are certain to be made upon it in the future.

Our national political system may be divided into two parts. On the one hand, there is the working machine, which goes on, year in, year out, whether Parliament is sitting or not, and which would still go on quite well for a time if Parliament never met again. We call it the Government, and we habitually and rightly hold it responsible for every aspect of national policy and action, for legislation and finance as well as for foreign policy and internal administration. On the other hand, there is what Burke used to call "the control on behalf of the nation," mainly exercised through Parliament, whose chief function is to criticise and control the action of Government, and to make the responsibility of Government to the nation a real and a felt responsibility. The discontents of to-day apply to both parts of the system, and I propose to deal with them in turn, first inquiring what is wrong with the working machine of government and how it can be amended, and then turning to consider how far the control on behalf of the nation is working badly, and how it can be made more efficient.

In what I have called the "working machine" of government there are two distinct elements.

First, there is the large, permanent, professional staff, the Civil Service; secondly, there is the policy-directing body, the Cabinet. Both of these are the objects of a great deal of contemporary criticism. On the one hand, we are told that we are suffering from "bureaucracy," which means that the permanent officials have too much independent and uncontrolled, or imperfectly controlled, authority. On the other hand, we are told that we are suffering from Cabinet dictatorship, or, alternatively, that the Cabinet system is breaking down and being replaced by the autocracy of the Prime Minister. There is a good deal of *prima facie* justification for all these complaints.

#### THE GROWTH OF THE CIVIL SERVICE

First, as to bureaucracy. It is manifest that there has been an immense increase in the number, the functions, and the power of public officials. This is not merely due to the war. It has been going on for a long time—ever since, in fact, we began the deliberate process of national reconstruction in the years following 1832. In itself this increase has not been a bad thing; on the contrary, it has been the only possible means of carrying into effect the great series of reforms which marked the nineteenth century. And may I here underline the fact that we Liberals, in particular, have no right to criticise the process, since we have been mainly responsible for it, at any rate in all its early stages. When our predecessors set up the first Factory Inspectors in



1833, and so rendered possible the creation of a whole code of factory laws; when they created the first rudimentary Education Office in 1839, and so set to work the men who have really moulded our national system of education; when they set up a bureaucratic Poor Law Board in 1841, which shaped our Poor Law Policy, and a Public Health Board in 1848, which gradually worked out our system of Public Health—when they did these things, they were beginning a process which has been carried further with every decade. If you like, they were laying the foundations of bureaucracy; but they were also creating the only machinery by which vast, beneficial and desperately needed measures of social reform could be carried into effect.

And there is yet another thing for which Liberalism must assume the responsibility. When Gladstone instituted the Civil Service Commission in 1853, and the system of appointment by competitive examination in 1870, he freed the Civil Service from the reputation for corruption and inefficiency which had clung to it; and he ensured that it should attract, as it has ever since done, much of the best intellect of the nation. But this very fact inevitably increased the influence of the Civil Service, and encouraged the expansion of its functions. If you put a body of very able men in charge of a department of public service, it is certain that they will magnify their office, take a disproportionate view of its claims, and incessantly strive to increase its functions and its staff. This is not only natural, it is healthy—so long as the

process is subjected to efficient criticism and control.

But the plain fact is that the control is inadequate. The vast machine of government has outgrown the power of the controlling mechanism.

We trust for the control of the immense bureaucratic machine, almost entirely to the presence, at the head of each department, of a political minister directly responsible to Parliament. We hold the minister responsible for everything that happens in his office, and we regard this ministerial responsibility as one of the keystones of our system. But when we reflect that the minister is distracted by a multitude of other calls upon his time, and that he has to deal with officials who are generally his equals in ability, and always his superiors in special knowledge; when we realise how impossible it is that a tithe of the multifarious business of a great department should come before him, and that the business which does come before him comes with the recommendations for action of men who know ten times more about it than he does, it must be obvious that the responsibility of the minister must be quite unreal, in regard to the normal working of the office. One thing alone he can do, and it is an important thing, quite big enough to occupy his attention. He can make sure that the broad policy of the office, and its big new departures, are in accord with the ideas of the majority in Parliament, and are co-ordinated, through the Cabinet, with the policy of the other departments. That, indeed, is the true function of a minister; and if he tries to make his responsibility real beyond that, he may easily neglect his main work. Beyond

this consideration of broad policy, I do not hesitate to say that the theory of ministerial responsibility is not a check upon the growth of bureaucracy, but is rather the cover under which bureaucracy has grown up. For the position of the minister enables him, and almost compels him, to use his influence in Parliament for the purpose of diverting or minimising parliamentary criticism.

### A CHECK UPON BUREAUCRACY

How can this growth of inadequately controlled official power be checked? Is it not apparent that this can only be done if a clear distinction is drawn between the sphere of broad policy, in which the minister both can be and ought to be responsible, and the sphere of ordinary administrative work for which the minister cannot be genuinely responsible? If that distinction is accepted, it ought not to be impossible for Parliament without undermining ministerial or cabinet responsibility, to devise a means of making its control over the ordinary working of the departments effective, through a system of committees or in other ways.

The current complaints of bureaucracy, however, are not directed mainly against the ineffectiveness of the machinery of control, but against the way in which public work is conducted by government officials—the formalism and red-tape by which it is hampered, the absence of elasticity and enterprise; and the methods of government departments are often compared, to their disadvantage, with those of business firms. But the

comparison disregards a vital fact. The primary function of a government department is not creative or productive, but regulative. It has to see that laws are exactly carried out, and that public funds are used for the precise purposes for which they were voted ; and for this kind of work a good deal of red-tape is necessary. Moreover, it is essential that those who are charged with such functions should be above all suspicion of being influenced by fear or favour or the desire to make profit ; and for this purpose fixed salaries and security of tenure are essential.

In short, the fundamental principles upon which government departments are organised are right for the regulative functions which they primarily exist to perform. But they are altogether wrong for creative and productive work, which demands the utmost elasticity, adaptability, and freedom for experiment. And it is just because the ordinary machinery of government has been used on a large scale for this kind of work that the outcry against bureaucracy has recently been so vehement. It is not possible to imagine a worse method of conducting a great productive enterprise than to put it under the control of an evanescent minister selected on political grounds, and supported by a body of men whose work is carried on in accordance with the traditions of the Civil Service.

If we are to avoid a breakdown of our whole system, we must abstain from placing productive enterprises under the control of the ordinary machinery of government—Parliament, responsible political ministers, and civil service staffs. But it

does not follow that no productive concern ought ever to be brought under public ownership and withdrawn from the sphere of private enterprise. As we shall later note, such concerns can, if it be necessary, be organised in a way which would avoid these dangers.

### THE CABINET

We turn next to the other element in the working machine of government, the Cabinet, or policy-directing body, which is the very pivot of our whole system. Two main functions fall to the Cabinet. In the first place, it has to ensure an effective co-ordination between the various departments of government; in the second place, it is responsible for the initiation and guidance of national policy in every sphere, subject to the watchful but friendly control of Parliament.

Long experience has shown that there are several conditions which must be fulfilled if a Cabinet is to perform these functions satisfactorily. In the first place, its members must, among them, be able to speak for every department of government; failing this, the function of co-ordination cannot be effectively performed. This principle was discarded in the later stages of the war, when a small War Cabinet was instituted, from which most of the ministers were excluded. The result was confusion and overlapping, and the attempt to remedy these evils by the creation of a staff of *liaison* officers under the control of the Prime Minister had very imperfect success, and in some

respects only added to the confusion. In the second place, the Cabinet must be coherent and homogeneous, and its members must share the same ideals of national policy. National business cannot be efficiently transacted if the members of the Cabinet are under the necessity of constantly arguing about, and making compromises upon, first principles. That is the justification for drawing the members of a Cabinet from the leaders of a single party, who think alike and understand one another's minds. Whenever this condition has been absent, confusion, vacillation and contradiction have always marked the conduct of public affairs, and disastrous results have followed.

In the third place, the procedure of the Cabinet must be intimate, informal, elastic, and confidential ; every member must be able to feel that he has played his part in all the main decisions of policy, whether they directly concern his department or not, and that he is personally responsible for these decisions. Constitutional usage has always prescribed that it is the duty of a Cabinet Minister to resign if he differs from his colleagues on any vital matter, whether relating to his department or not, and this usage is, in truth, the main safeguard for the preservation of genuine conjoint responsibility, and the main barrier against irresponsible action by a Prime Minister or a clique. When the practice of resignation in the sense of giving up office is replaced by the other kind of resignation—shrugging one's shoulders and letting things slide—the main virtue of Cabinet

government has been lost. In the fourth place, in order that every minister may fully share in every important discussion and decision, it is essential that the Cabinet should be small. Sir Robert Peel, in whose ministry of 1841-6 the system probably reached perfection, laid it down that nine was the maximum number for efficiency, because not more than about nine men can sit round a table in full view of one another, all taking a real share in every discussion. When the membership of a Cabinet largely exceeds this figure, it is inevitable that the sense of joint and several responsibility for every decision should be greatly weakened.

#### MODERN CHANGES IN THE CABINET

I do not think any one will deny that the Cabinet has in a large degree lost these four features which we have laid down as requisite for full efficiency. The process has been going on for a long time, but during the last six years it has been accelerated so greatly that the Cabinet of to-day is almost unrecognisably different from what it was fifty years ago. To begin with, it has grown enormously in size, owing to the increase in the number of departments of government. This growth has markedly diminished the sense of responsibility for national policy as a whole felt by the individual members, and the wholesome practice of resignation has gone out of fashion. It has led to frequent failures in the co-ordination of the various departments, which are often seen working at cross purposes. It has brought about a new formality in the

proceedings of the Cabinet, in the establishment of a Cabinet Secretariat.

The lack of an efficient joint Cabinet control has encouraged a very marked and unhealthy increase in the personal authority of the Prime Minister and of the clique of more intimate colleagues by whom he is surrounded; and this is strengthened by the working of the new Secretariat. All these unhealthy features have been intensified by the combination of the two strongest parties in Parliament to form a coalition; for this has deprived the Cabinet of homogeneity and made it the scene not of the definition of a policy guided by clear principles, but rather the scene of incessant argument, bargaining, and compromise on fundamentals. Finally, the responsibility of the Cabinet to Parliament has been gravely weakened; it acts as the master of Parliament, not as its agent, and its efficiency suffers from the fact that its members are able to take their responsibility to Parliament very lightly.

All these defects in the working of the Cabinet system have been much more marked since the war than at any earlier time. But the two chief among them—lessened coherence due to unwieldiness of size, and diminished responsibility to Parliament—were already becoming apparent during the generation before the war. On the question of responsibility to Parliament we shall have something to say later. But it is worth while to ask whether there is any means whereby the old coherence, intimacy and community of responsibility can be restored. If it cannot be restored, the



Cabinet system, as we have known it, is doomed. I do not think that it can be restored unless the size of the Cabinet can be greatly reduced, without excluding from its deliberations a responsible spokesman for each department of government.

But this will only be possible if a considerable regrouping of the great departments can be effected. I do not think that such a regrouping is impracticable. Indeed, it is for many reasons desirable. If it were carried out, a Cabinet might consist of the following members, who would among them be in contact with the whole range of governmental activity. There would be the Prime Minister; there would be the Chancellor of the Exchequer, responsible for national finance; there would be the Minister for Foreign Affairs; there would be a Minister for Imperial Affairs, speaking for a sub-Cabinet which would include Secretaries for the Dominions, for India, and for the Crown Colonies and Protectorates; there would be a Minister of Defence, with a sub-Cabinet including Ministers of the Navy, the Army, and the Air Force; there would be a Minister for Justice and Police, performing most of the functions both of the Home Office and of the Lord Chancellor, who would cease to be a political officer and be able to devote himself to his judicial functions; there would be a Minister of Agriculture, Industry, and Commerce, with a sub-Cabinet representing the Board of Trade, the Board of Agriculture, the Ministry of Mines, the Ministry of Labour, and perhaps other departments.

Ministers of Public Health and of Education would complete the list of active administrative chiefs; but one or two additional members, not burdened with the charge of a great department might be added, such as the Lord President of the Council, and one of these might very properly be a standing representative upon the Council of the League of Nations. The heads of productive trading departments—the Post Office and the Public Works Department—should, I suggest, be excluded from the Cabinet, and their departments should be separately organised in such a way as not to involve a change of personnel when one party succeeded another in power. These departments have no direct concern with the determination of national policy.

On such a scheme we should have a Cabinet of nine or ten members, representing among them all the departments which are concerned with regulative or purely governmental work. And I suggest that a rearrangement of this kind would not only restore efficiency to the Cabinet, but would lead to very great administrative reforms, better co-ordination between closely related departments, and in many respects economy. But valuable as such changes may be, they would not in themselves be sufficient to restore complete health to our governmental system. In the last resort this depends upon the organisation of an efficient and unresting system of criticism and control.

THE HOUSE OF COMMONS

In any modern State the control of the action of Government is largely wielded by organs not formally recognised by law—by the general movement of public opinion; by the influence of what is vaguely called “the city”; by the resolutions of such powerful bodies as trade union congresses, federations of employers, religious organisations, and propagandist bodies of many kinds; and, above all, by the Press. No review of our system would be complete without some discussion of these extremely powerful and in some cases dangerous influences. We cannot, however, touch upon them here. We must confine ourselves to the formal, constitutional machinery of national control over the actions of Government, that is, to Parliament, as the spokesman of the nation.

An essential part of any full discussion of this subject would be a treatment of the Second Chamber problem. But that would demand a whole hour to itself; and I propose to pass it over for the present, and to ask you to consider the perturbing fact that the House of Commons, which is the very heart of our system, has largely lost the confidence and belief which it once commanded.

Why has the House of Commons lost the confidence of the nation? There are two main reasons, which we must investigate in turn. In the first place, in spite of the now completely democratic character of the electorate, the House is felt to be very imperfectly representative of the national

mind. And in the second place, it is believed to perform very inefficiently its primary function of criticising and controlling the action of Government.

First of all, why do men vaguely feel that the House of Commons is unrepresentative? I think there are three main reasons. The first is to be found in the method of election. Since 1885 the House has been elected by equal electoral districts, each represented by a single member. Now, if we suppose that every constituency was contested by two candidates only, about 45 per cent. of the voters must feel that they had not voted for anybody who sat at Westminster; while many of the remaining 55 per cent. must feel that they had been limited to a choice between two men, neither of whom truly represented them. But if in many constituencies there are no contests, and in many others there are three or more candidates, the number of electors who feel that they have not voted for any member of the House may rise to 60 per cent. or even 70 per cent. of the total.

The psychological effect of this state of things must be profound. And there is another consideration. The very name of the House of Commons (Communes, not common people) implies that it represents organised communities, with a character and personality and tradition of their own—boroughs or counties. So it did until 1885. Now it largely represents totally unreal units which exist only for the purpose of the election. The only possible means of overcoming these defects of the single member system is some mode of proportional representation—perhaps qualified by the retention

of single members in those boroughs or counties which are just large enough to be entitled to one member.

The main objection taken to proportional representation is that it would probably involve small and composite majorities which would not give sufficient authority to ministries. But our chief complaint is that the authority of modern ministries is too great, their power too unchecked. In the middle of the nineteenth century, when our system worked most smoothly, parties *were* composite, and majorities were small—as they usually ought to be, if the real balance of opinion in the country is to be reflected. The result was that the control of Parliament over the Cabinet was far more effective than it is to-day; the Cabinet could not ride roughshod over the House; and debates really influenced votes, as they now scarcely ever do. The immense majorities which have been the rule since 1885 are not healthy. They are the chief cause of the growth of Cabinet autocracy. And they are due primarily to the working of the single-member constituency.

The second ground of distrust is the belief that Parliament is unduly dominated by party; that its members cannot speak and vote freely; that the Cabinet always gets its way because it is able to hold over members, *in terrorem*, the threat of a general election, which means a fine of £1000 a head; and that (what creates more suspicion than anything) the policy of parties is unduly influenced by the subscribers of large amounts to secret party funds. I am a profound believer in organised

parties as essential to the working of our system. But I also believe that there is real substance in these complaints, though they are often exaggerated. What is the remedy? First, smaller majorities, and a greater independence of the individual member, which would follow from a change in the methods of election. And, secondly, publicity of accounts in regard to party funds. There is no reason why an honest party should be ashamed of receiving large gifts for the public ends it serves, and every reason why it should be proud of receiving a multitude of small gifts. I very strongly hold that in politics, as in industry, the best safeguard against dishonest dealings, and the surest means of restoring confidence, is to be found in the policy of "Cards on the table." Is there any reason why we Liberals should not begin by boldly adopting, in our own case, this plainly Liberal policy?

#### REPRESENTATION OF "INTERESTS"

There is a third reason for dissatisfaction with the composition of the House of Commons, which has become more prominent in recent years. It is that, increasingly, organised interests are making use of the deficiencies of our electoral system to secure representation for themselves. If I may take as instances two men whom, in themselves, everybody would recognise as desirable members of the House, Mr. J. H. Thomas plainly is, and is bound to think of himself as, a representative of the railwaymen rather than of the great community of Derby, while Sir Allan Smith as plainly represents

engineering employers rather than Croydon. There used to be a powerful trade which chose as its motto "Our trade is our politics." Most of us have regarded that as an unsocial doctrine, yet the growing representation of interests suggests that it is being widely adopted.

Indeed, there are some who contend that we ought frankly to accept this development and universalise it, basing our political organisation upon what they describe (in a blessed, Mesopotamic phrase) as "functional representation." The doctrine seems to have, for some minds, a strange plausibility. But is it not plain that it could not be justly carried out? Who could define or enumerate the "functions" that are to be represented? If you limit them to economic functions (as, in practice, the advocates of this doctrine do), will you provide separate representation, for example, for the average-adjusters—a mere handful of men, who nevertheless perform a highly important function? But you cannot thus limit functions to the economic sphere without distorting your representation of the national mind and will. If you represent miners merely as miners, you misrepresent them, for they are also Baptists or Anglicans, dog-fanciers, or lovers of Shelley, prize-fighters, or choral singers. The notion that you can represent the mind of the nation on a basis of functions is the merest moonshine. The most you can hope for is to get a body of 700 men and women who will form a sort of microcosm of the more intelligent mind of the nation, and trust to it to control your Government. Such a body will consist of

men who follow various trades. But the conditions under which they are chosen ought to be such as to impress upon them the duty of thinking of the national interest as a whole in the first instance, and of their trade interests only as they are consistent with that. The fundamental danger of functional representation is that it reverses this principle, and impresses upon the representative the view that his trade is his politics.

But it is useless to deplore or condemn a tendency unless you see how it can be checked. Why has this representation of economic interests become so strong? Because Parliament is the arena in which important industrial problems are discussed and settled. It is not a very good body for that purpose. If we had a National Industrial Council charged, not with the final decision, but with the most serious and systematic discussion of such problems, they would be more wisely dealt with. And, what is quite as important, such a body would offer precisely the kind of sphere within which the representation of interests as such would be altogether wholesome and useful; and, once it became the main arena of discussion, it would satisfy the demand for interest-representation, which is undermining the character of Parliament. In other words, the true alternative to functional representation in Parliament is functional devolution under the supreme authority of Parliament.

But still more important than the dissatisfaction aroused by the composition of the House is the dissatisfaction which is due to the belief that its functions are very inefficiently performed. It is



widely believed that, instead of controlling Government, Parliament is in fact controlled by it. The truth is that the functions imposed upon Parliament by increased legislative activity and the growth of the sphere of Government are so vast and multifarious that no part of them *can* be adequately performed in the course of sessions of reasonable length; and if the sessions are not of reasonable length—already they are too long—we shall be deprived of the services of many types of men without whom the House would cease to be genuinely representative of the mind of the nation.

Consider how the three main functions of Parliament are performed—legislation, finance, and the control of administration. The discussion of legislation by the whole House has been made to seem futile by the crack of the party whip, by obstruction, and by the weapons designed to deal with obstruction—the closure, the guillotine, the kangaroo. A real amendment has been brought about in this sphere by the establishment of a system of committees to which legislative proposals of various kinds are referred, and this is one of the most hopeful features of recent development. But there is still one important sphere of legislation in which drastic reform is necessary: the costly and cumbrous methods of dealing with private bills promoted by municipalities or by railways and other public companies. It is surely necessary that the bulk of this work should be devolved upon subordinate bodies.

When we pass to finance, the inefficiency of

parliamentary control becomes painfully clear. It is true that a good deal of parliamentary time is devoted to the discussion of the estimates. But how much of this time is given to motions to reduce the salary of the Foreign Secretary by £100 in order to call attention to what is happening in China? Parliament never, in fact, attempts any searching analysis of the expenditure in this department or that. It cannot do so, because the national accounts are presented in a form which makes such discussion very difficult. The establishment of an Estimates Committee is an advance. But even an Estimates Committee cannot do such work without the aid of a whole series of special bodies intimately acquainted with the working of various departments. In short, the House of Commons has largely lost control over national expenditure. As for the control of administration, we have already seen how inadequate that is, and why it is inadequate.

These deficiencies must be corrected if Parliament is to regain its prestige, and if our system of government is to attain real efficiency. For this purpose two things are necessary: in the first place, substantial changes in the procedure of Parliament; in the second place, the delegation to subordinate bodies of such powers as can be appropriately exercised by them without impairing the supreme authority of Parliament as the mouthpiece of the nation. I cannot here attempt to discuss these highly important matters in any detail. In regard to procedure, I can only suggest that the most valuable reform would be the institution of a

series of committees each concerned with a different department of Government. The function of these committees would be to investigate and criticise the organisation and normal working of the departments, not to deal with questions of broad policy; for these ought to be dealt with in relation to national policy as a whole, and they must, therefore, be the concern of the minister and of the Cabinet, subject to the overriding authority of Parliament as a whole. In order to secure that this distinction is maintained, and in order to avoid the defects of the French committee system under which independent *rapporteurs* disregard and override the authority of the ministers, and thus gravely undermine their responsibility, it would be necessary not only that each committee should include a majority of supporters of Government, but that the chair should be occupied by the minister or his deputy.

### DEVOLUTION

Nor can I stop to dwell upon the very important subject of the delegation or devolution of powers by Parliament to subordinate bodies. I will only say that devolution may be, and I think ought to be, of two kinds, which we may define as regional and functional. To regional bodies for large areas (which might either be directly elected or constituted by indirect election from the local government authorities within each area) might be allotted much of the legislative power of Parliament in regard to private Bills, together with

general control over those public functions, such as Education and Public Health, which are now mainly in the hands of local authorities. Of functional devolution the most important expression would be the establishment of a National Industrial Council and of a series of councils or boards for various industries endowed with quasi-legislative authority; by which I mean that they should be empowered by statute to draft proposals for legislation of a defined kind, which would ultimately receive their validity from Parliament, perhaps without necessarily passing through the whole of the elaborate process by which ordinary legislation is enacted. I believe there are many who share my conviction that a development in this direction represents the healthiest method of introducing a real element of industrial self-government. But for the moment we are concerned with it as a means of relieving Parliament from some very difficult functions which Parliament does not perform conspicuously well, without qualifying its supreme and final authority.

One final point. If it is true, as I have argued, that the decay of the prestige and efficiency of Parliament is due to the fact that it is already overloaded with functions and responsibilities, it must be obvious that to add to this burden the responsibility for controlling the conduct of great industries, such as the railways and the mines, would be to ensure the breakdown of our system of government, already on the verge of dislocation. In so far as it may be necessary to undertake on behalf of the community the ownership and conduct

of any great industrial or commercial concern, I submit that it is essential that it should not be brought under the direct control of a ministerial department responsible to Parliament. Yet the ultimate responsibility for the right conduct of any such undertaking (*e.g.* the telephones, electric supply, or forests) must, when it is assumed by the State, rest upon Parliament. How is this ultimate responsibility to be met? Surely in the way in which it is already met in the case of the Ecclesiastical Commissioners or the Port of London Authority—by setting up, under an Act of Parliament, an appropriate body in each case, and by leaving to it a large degree of freedom of action, subject to the terms of the Act and to the inalienable power of Parliament to alter the Act. In such a case the Act could define how the authority should be constituted, on what principles its functions should be performed, and how its profits, if it made profits, should be distributed. And I suggest that there is no reason why the Post Office itself should not be dealt with in this way.

It is only a fleeting and superficial survey which I have been able to give of the vast and complex themes on which I have touched; and there is no single one of them with which I have been able to deal fully. My purpose has been to show that in the political sphere as well as in the social and economic spheres vast tasks lie before Liberalism, and, indeed, that our social and economic tasks are not likely to be efficiently performed unless we give very serious thought to the political problem. Among the heavy responsibilities which lie upon our

country in the troubled time upon which we are entering, there is none more heavy than the responsibility which rests upon her as the pioneer of parliamentary government—the responsibility of finding the means whereby this system may be made a respected and a trustworthy instrument for the labours of reconstruction that lie before us.

# THE STATE AND INDUSTRY

BY W. T. LAYTON

M.A., C.H., C.B.E.; Editor of the *Economist*, 1922; formerly Member of Munitions Council, and Director of Economic and Financial Section of the League of Nations; Director of Welwyn Garden City; Fellow of Gonville and Caius College, Cambridge, 1910.

MR. LAYTON said :—The existing system of private enterprise has been seriously attacked on many grounds. For my present purpose I shall deal with four: (1) The critic points to the extreme differences of wealth and poverty which have emerged from this system of private enterprise; (2) it has produced and is producing to-day recurrent periods of depression which result in insecurity and unemployment for the worker; (3) the critics say the system is producing great aggregations of capital and monopolies, and that by throwing social power into the hands of those controlling the capital of the country, it leads to exploitation of the many by industrial and financial magnates; (4) it produces a chronic state of internal war which saps industrial activity and the economic life of the community.

I shall not attempt to minimise the force of these objections; but in order to get our ideas into correct perspective it should be observed that the first two of these features are not new phenomena arising out of our industrial system. You find

extreme inequalities of distribution in practically all forms of society—in the slave state, the feudal state, in India and in China to-day. Nor is this the first period of history in which there has been insecurity. If you look at any primitive community, and note the effect of harvest fluctuations and the inevitable famine following upon them, you will recognise that the variations of fortune which affect such communities are more disastrous in their effect than the trade variations of the modern world.

But after all qualifications have been made these four indictments are sufficiently serious and must be met, for it is these and similar considerations which have driven many to desire the complete abolition of the system. Some wish to abolish private property, and desire a Communist solution. Others practically attack the system of private enterprise, and wish to substitute either the community in some form or another (*e.g.* state socialism), or some corporate form of industry (*e.g.* guild socialism).

#### THE LIBERAL BIAS

Liberals, on the other hand, reject these solutions, and desire not to end the present system but to mend it. The grounds for this conclusion need to be clearly expressed, for after all it is the fundamental point of doctrine which distinguishes them from the Labour party. In the first place, there is the fact that Liberals attach a special importance to the liberty of the individual. The general



relation of the individual to the State is rather outside my subject, but we start from the fact that the bias of Liberals is towards liberty in every sphere, on the ground that spiritual and intellectual progress is greatest where individuality is least restricted by authority or convention. Variety, originality in thought and action, are the vital virtues for the Liberal. It is still true that "in this age the mere example of Nonconformity, the mere refusal to bow the knee to custom, is itself a service." The Liberal who no longer feels at the bottom of his heart a sympathy with the rebel who chafes against the institutions of society, whether religious, political, social or economic, is well on the road to the other camp. But the dynamic force of Liberty, that great motive power of progress, though a good servant, may be a bad master; and the perennial problem of society is to harmonise its aims with those of the common good.

When we come to the more specific problem of industry, which is our immediate concern, a glance at history shows that the era of most rapid economic progress the world has ever seen has been the era of the greatest freedom of the individual from statutory control in economic affairs. The features of the last hundred years have been the rapidity of development in industrial technique, and constant change in the form of industrial organisation and in the direction of the world's trade. Could any one suppose that in these respects industry, under the complete control of the State or of corporations representing large groups of wage earners and persons engaged in trade, could

have produced a sufficiently elastic system to have permitted that progress to be made? In reply to this it may be said that though this was true during the industrial revolution, it does not apply to-day; that our industries have become organised; that methods of production, population, and economic conditions generally are stabilised, and that we can now settle down to a new and standard form of industrial organisation. But this agreement is based on false premises. The industrial revolution is far from complete. We are to-day in the full flood of it. Look at the changes in the last four decades—the evolution of electricity, the development of motor transport, or the discoveries in the chemical and metallurgical industries. Consider what lies ahead; the conquest of the air, the possible evolution of new sources of power, and a hundred other phases which are opening up in man's conquest of nature, and you will agree that we are still at the threshold of industrial revolution.

I may mention here a consideration which applies practically to Great Britain. We are a great exporting country, living by international trade, the world's greatest retail shopkeeper whose business is constantly changing in character and direction. The great structure of international commerce on which our national life depends is essentially a sphere in which elasticity is of the utmost importance, and in which standardised or stereotyped methods of control of production or exchange would be highly disastrous. Liberal policy, therefore, aims at keeping the field of private enterprise in business as wide as possible.

But in the general discussion of political or personal liberty in economic affairs, we have to consider how far and in what way the freedom of private enterprise needs to be limited or curtailed for the common good. We must solve that problem. For Liberals there is no inherent sanctity in the conceptions of private property, or of private enterprise. They will survive, and we can support them only so long as they appear to work better in the public interest than any possible alternatives.

### RETROSPECT AND PROSPECT

My object, then, is to show how a system which embodies a large amount of private enterprise can be made tolerable and acceptable to modern ideas of equity. For this purpose we need to consider (1) what have we done in that direction in the past? (2) what is the setting of the economic problem to-day, and (3) what is to be our policy for the future?

Dealing first with wealth and wages, the whole field of social legislation has a bearing upon them, including particularly education, elementary and technical, the Factory Acts, and a great mass of legislation which has affected the earning powers of the worker and the conditions under which he labours. Just before the war we had come to the point of fixing a minimum wage in the mines, but an even more important factor was that we had introduced the Trade Board system, which had begun to impose a minimum wage in certain trades where wages were particularly low. But the most important direct attack upon the unequal

distribution of wealth was by taxation in accordance with the Liberal policy of a graduated and differential income-tax, and still more important, by taxes upon inheritance; for it has long been recognised that though it may be desirable to allow men to accumulate great wealth during their lifetime, it by no means follows that they should be entitled to control the distribution of wealth in the next generation and launch their children on the world with a great advantage over their fellows of which they may be quite unworthy. On the question of insecurity it cannot be said that any serious attack has been made on the problem of how to diminish fluctuations of trade, but again the Liberal solution for dealing with that difficulty was to remedy not the cause but its effects by insurance.

On the question of monopolies and exploitation, though we hear a great deal of the growth of capitalistic organisation, in fact we find that, of the three greatest industrial countries in the world, Great Britain is the least trust-ridden, mainly because of its free trade system. In the case of enterprises not subject to foreign competition, we had begun to develop a fairly satisfactory system of control of public utility services which were of a monopolistic character.

Finally, there had been growing up a complete system of collective bargaining and conciliation, and though we always heard of it whenever there was dispute and strife, the ordinary public did not know that this machinery was working and developing in many great and important industries a

feeling of co-operation or at all events of conciliation between the two sides. I only mention these points very briefly in passing in order to show that with the evolution of modern industry we were already feeling our way, haltingly and far too slowly, it is true, towards a solution of its most serious defects.

Turning to the present situation, we have to face the fact that Great Britain is to-day faced with one of the most serious positions in its economic history. We must make allowances for the readily understood pessimism of a miners' leader, but it should arrest attention that Mr. Frank Hodges has recently described the present situation as the coming of the great famine in England. For nearly two decades before the war there was occurring a slight fall in the real wages of British workpeople. Food was becoming dearer, as the world's food supply was not increasing as fast as the world's industrial population, and the industrial workers of the world had, therefore, to offer more of their product to secure the food they needed. Hence the cost of living was rising faster than wages, except in trades where great technical advances were being made. There is some reason to fear that the war may have accentuated this tendency.

For some years the distant countries of the world have had to do without European manufactured goods. You are all aware of the tendency, for example, of India, Australia, and Canada to develop their own steel resources and to create manufacturing industries of all kinds. Moreover, we have lost

part of our hold on the food-producing countries of the world by the sale of our capital investments in those countries to pay for the war. These and other considerations all suggest that we may find it increasingly difficult to maintain our position as one of the main suppliers of the manufactured goods of the world. In such circumstances we shall be hard put to it to maintain, far less raise, the pre-war standard of living.

How then are we to cope with this problem of retaining our economic position? We can only hope to do it if the present financial difficulties and obstructions working through the exchanges, by which international commerce is restricted and constrained, are removed. We can only do it if and so long as the conception of international division of labour is maintained. And we can only do it if—granted that we can induce the world to accept this principle of international division of labour—we can prove ourselves, by our economic and productive efficiency, to be the best and cheapest producer of those classes of goods in which our skilled labour and fixed capital is invested.

Assuming the financial difficulty is overcome, and that the old régime of international specialisation revives, can we still show to the world that it is more profitable for them to buy goods and services from us than from other people? Can we compete with other industrial countries of the world? The actual output of our labour in most cases is far less than its potential capacity, partly because of technical conservatism, and partly for reasons connected with the labour situation. How

are we to mobilise these reserve resources. I have only space to deal with the second of these problems. In Germany labour is well disciplined, and has the military virtues of persistence and obedience to orders in the factory. But we cannot hope to call forth the utmost product of our labouring population by drill-sergeant methods.

In America this problem is a different one, because the American employer is often able to take full advantage of his economic position. For he has a labouring population of mixed nationality, which does not readily combine, and he can play off one section against the other. British employers cannot, if they would, deal with British labour on the principle of Divide and Rule. There is only one method by which we can hope to call forth this great reserve capacity of British labour, and that is by securing its confidence. If Free Trade is one of the legs on which British prosperity rests, the other is goodwill and active co-operation between the workman and his employer. How is that goodwill to be gained?

The solution of that problem is only partly in the hands of the politician; that is one of the reasons why it is extremely difficult to suggest an industrial policy which is going to hold out the hope of reaching Utopia in a short time. But it is obviously essential somehow or another to develop, particularly among employers, the sense of trusteeship—the sense that a man who controls a large amount of capital is in fact not merely an individual pursuing his own fortune, but is taking the very great responsibility of controlling a fragment of the

nation's industrial resources. And we have also to develop a conception of partnership and joint enterprise between employer and employed.

#### STATE OWNERSHIP: FOR AND AGAINST

What policy in the political field can be adopted to further these objects? Reverting once more to the fourfold division which I made at the outset, but taking the points in a different order, there is first the question whether there should be a great extension of State ownership, management, or control of monopolies and big business. In spite of the experience of the war, I suggest tentatively that no case has been made out for any wide or general extension of the field of State management in industry. This, however, is not a matter of principle, but of expediency, where each case must be considered on its merits. Liberals should, indeed, keep an open mind in this connection and not be afraid to face an enlargement of the field of State management from time to time. There are, however, two special cases to be considered: the mines and the railways. As to the mines, the solution Mr. McNair puts forward is on characteristically Liberal lines, because it will endeavour to harmonise the safeguarding of the interests of the State with the maximum freedom to private enterprise and the maximum scope for variety in methods of management. As to transport, we have recently passed an Act altering the form of control of British railways.

Personally I think the question whether railways



should or should not be nationalised is very much on the balance. It is obviously one of the questions where objections to State management are less serious than in most other cases. On the other hand, we may be able to find methods of control which may be even better than State management. I do not think the Act of last year fulfils the conditions which Liberals would have imposed on the railways, for the principle of guaranteeing to a monopoly a fixed income practically without any means of securing its efficiency, is the wrong way to control a public utility service. If we are going to leave public utilities in the hands of private enterprise, the principle must be applied that profit should vary in proportion to the services rendered to the community. In this connection the old gas company principle developed before the war is an admirable one. Under it the gas companies were allowed to increase their dividends in proportion as they lowered their prices to the community. That is a key principle, and some adaptation of it is required wherever such services are left in private hands. My own view is that an amended form of railway control should first be tried, and if that fails we should be prepared for some form of nationalisation.

#### TRUSTS AND MONOPOLIES

But if we refuse at present to enlarge the sphere of State management, we are still faced with the problem of dealing with trusts and monopolies. In this matter, as in so many other instances, the

right policy has already been worked out. Under the stimulating conditions which obtained during the war, when old-established methods of thought had been rudely shaken, progressive ideas had unusually free play; and you will find in the general economic policy adumbrated during and immediately after the war much that Liberals are looking for. On this question of monopolies, we should put into force the recommendation of the Committee on Trusts of 1919, with one qualification. The policy I suggest is the policy of the majority, namely, that we should give very much enlarged powers of inquiry to the Board of Trade, and that a Tribunal should be set up by which investigations could be made. But I would go further, and, taking one item from the Minority Report, I would add that either to this Tribunal or to the Board of Trade department concerned there should be given in reserve the power in special cases to regulate prices. I do not think it would be necessary often to use that power, indeed the mere inquiry and publicity of results would be sufficient to modify the action of monopolies. But such a power in reserve, even though price-fixing in ordinary circumstances is usually mischievous and to be deprecated, would have a very salutary effect.

In the case of public utilities of a standard kind, into which the element of buying and selling profits does not greatly enter, we should endeavour to start the experiment of putting representatives of the workpeople on the boards of directors, but in carefully selected cases, and not as a general rule. My own view is that if we are ready with

the machinery of investigation, and are prepared to deal in these ways with public utilities at home where foreign competition is absent, we have little to fear from trusts.

#### DISTRIBUTION

As regards distribution and wages, in the first place we should adhere to our traditional policy, developing the system of differential and graduated taxation, and we should be prepared, if unequal distribution of wealth continues, to limit further the right of inheritance. This is not a new Liberal doctrine : it is many decades old. On the question of wages we have to recognise that unless we can secure an increase in terms of food and other commodities of the national production the State cannot radically modify the general standard of living in the country ; or by administrative action raise the level of wages which economic conditions are imposing on us. But the State can and should enforce a minimum in certain industries, provided that minimum is reasonably in harmony with the competitive level of wages. Such action can prevent workers whose economic position is not a strong one—and this applies particularly to many women's employment—from being compelled to accept wages substantially less than the current standard. I therefore welcome the gradual extension of the Trade Board system, provided it follows the general principle recommended in the Cave Report—that the community should use its full powers of compulsion only in regard to the

minimum, and that so far as all other classes of wages are concerned, the State should encourage collective bargaining. With this proviso, compulsory enforcement of a minimum could also be extended to the workpeople covered by Whitley Councils.

As regards all wages above the minimum the Cave Committee recommended that, provided they are reached by agreement on the Board, and provided that a sufficiently large proportion of the Board concur, the wage so determined shall be enforced by civil process, whereas in the cases of the minimum, the rates would be determined if necessary by arbitration of the State-appointed members of the Board, and non-payment would be a penal offence. The Trade Boards now cover three million workers. Two million are in occupations for which Trade Boards are under consideration, and there are a further two million under Industrial Councils or Whitley Councils. If State powers are to be employed in trades employing seven millions of the eighteen million wage-earners of the country, the scope of those powers needs to be very carefully defined.

#### THE CASE FOR PROFIT-SHARING

Many Liberals are, however, asking whether this is sufficient and whether it is not possible for the State to intervene to alter the distribution of the product of industry in favour of the wage-earner. In particular, they are wondering whether it is possible to secure the universal application of some system of profit-sharing. The underlying

principle of profit-sharing is indeed one which we must look to if the whole-hearted assistance of labour is to be enlisted behind the productive effort of the country. But the profit we have to consider is the profit over which the worker has some influence. There is no merit in inviting him to share in purely commercial profits or losses which may be due to some one else's speculation or business foresight. It is futile to imagine you can reverse the functions of labour and capital, and say that capital should have a fixed wage, and that the employee should bear all the risks of the industry.

Again, in some cases it is suitable that profits should be considered in regard to a whole industry, but in others only in regard to a particular firm or section; and finally the rate of profit suitable to various trades varies between very wide limits. In short, there can be no universal rule in this matter which can be enforced by Act of Parliament.

Nevertheless, we must all desire to proceed along the lines of associating the pecuniary interests of the worker in the success of the enterprise, and if any one can suggest a way in which direct assistance to that end can be given by political action, as distinct from industrial, he will be doing a great service. I may add that there is an argument in favour of profit-sharing which is of the utmost importance and which was recently expressed by a prominent industrialist: who declared to me that at long last and after much opposition he has come round to believe in profit-sharing, *because it enables him to show his men the balance sheet.* The

solution adopted last year in the mining industry contains the sort of elements we wish to see adopted in principle. The men are given, through their officials, the results of the industry. They see that they cannot get more than the industry can pay, and though the present economic conditions are putting the men in a desperate state to-day, the miners, who were often regarded before the war as the most pugnacious in the country, are not burning their employers' houses, but are studying how the economic conditions of the industry can be improved for the benefit of themselves and their employers.

#### INDUSTRIAL PUBLICITY

This brings me to the question of publicity, which is at the root of the whole problem. We desire the principle of private enterprise to remain. The one thing that can destroy it is secrecy. We argue that the self-interest of the investor makes capital flow into those channels where economic conditions need it most. But how can the investor know where it should go when the true financial condition of great industrial companies is a matter of guesswork? Again, we rely upon our bankers to check excessive industrial fluctuations. How can they do this if they do not know the facts of production? The public should know what great combines are doing, but they do not know; and how can we expect the man in the street to be satisfied when his mind is filled with suspicions that can be neither confirmed nor removed?

It is of the utmost importance to seek for greater publicity on two main lines. The illustration of the mines suggests one—production and wage data. There are only three industries in this country—coal, steel, and ships—in which production statistics exist. I suggest that in many of our great staple industries a few simple data with regard to production should be published promptly, say every three months. The data I have in mind are the wages bill, the cost of materials, and the value of the product. It is desirable that this should be done, and I believe it can be done, for almost every great industry in the country. These three facts alone will bring the whole wages discussion down to earth.

Then on finance, I suggest that one of the first things a Liberal Government should do should be to appoint a commission to overhaul the whole of our Company Law. This is not the occasion to enter in detail into a highly technical problem. But I would call attention to the following points: There is no compulsion on any joint-stock company to publish a balance sheet. It is almost the universal practice to do so; but as it is not an obligation, the Company Law lays down no rules as to what published balance sheets must contain. Again, the difference between private and public companies must be considered; a private company which employs a great mass of capital and large numbers of work-people—a concern which may cover a whole town or district—should in the public interest be subject to the same rules as a public company. Thirdly, in view of the amalgamation

of industry, the linking up of company with company, there must be reconsideration as regards publicity in the case of subsidiary companies. Finally, I think we have been wrong in assuming that a law applicable to a company with a modest little capital is suitable to regulate the publicity of a great combine controlling tens of millions of capital. Some attempt should therefore be made to differentiate between what must be told by the big and by the little concerns respectively. I am well aware of the myriad difficulties that this demand for publicity will encounter. But difficulties exist to be overcome. And they must be overcome, for of this I feel certain: that if the system of private enterprise dies, it will be because the canker of secrecy has eaten into its vitals.

#### A NATIONAL INDUSTRIAL COUNCIL

I have left very little time for dealing specifically with the question of industrial relations, though much that I have said has a bearing upon it. There has been great disappointment with the results of the Whitley Council movement. Many thought they were going to bring in a new era. But they have not lived up to these hopes, firstly, because they came into being at a time of unexampled economic difficulty, and, secondly, because they were introduced into industries where there was no tradition of co-operative action—being established mainly in industries lying between the entirely unorganised and the highly organised trades. But we must persist in encouraging



Whitley Councils, and still more in the associated objective of encouraging works committees. The basis of industrial peace is in the individual works. Co-operation cannot be created by Act of Parliament, but depends upon the development of opinion among employers and workmen. Starting from Works Councils up through the Whitley Council, Trade Boards, or National Trade Union machinery for the negotiation of wages, we arrive at the National Industrial Council, which is the point at which the Government can most directly assist the movement towards more cordial relations. The plan of this Council is ready. It was proposed and developed in 1919, and I personally do not want to change that plan very much.

But I think it is of the utmost importance that we should embody in our Liberal programme the institution of a National Industrial Council or Parliament representing the trade organisations on both sides. Whether it should represent the consumers, I, personally, am doubtful. It should be consulted before economic and particularly industrial legislation is introduced into Parliament. It should be the forum on which we should get a much better informed discussion of industrial problems than is possible in Parliament or through any other agency in the country. The National Council also needs to have specific work to do. I would be prepared to see transferred to it many of the functions of the Ministry of Labour, or rather that it should be made obligatory for the Minister of Labour to consult this Council on such questions as whether it should hold a compulsory inquiry

into an industrial dispute. I would also throw upon it the duty of advising Parliament exactly how my proposals as to publicity are to be carried out, and would give it responsibility for the Ministry of Labour index figures of the cost of living upon which so many industrial agreements depend. I believe if we could set out a series of specific functions to give the plan vitality, in addition to the more nebulous duty of advising the Government on industrial questions, we should have created an important device for promoting the mutual confidence of which I have spoken.

The suggestions I have made are perhaps not very new, but they seem to me to be in the natural line of evolution of Liberal traditions. Above all, if they are accepted they should be pursued unflinchingly and persevered with, not as a concession to this or that section which may happen to be strong at the moment, but as a corporate policy, which aims at combining the interests of us all in securing increased national wealth with justice to the component classes of the commonwealth.

# THE REGULATION OF WAGES

BY PROFESSOR L. T. HOBHOUSE

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PROFESSOR HOBHOUSE said:—The wages, hours, and general conditions of industrial workers are of interest to the community from two points of view. So far as the less skilled and lower paid workers are concerned, it is to the interest and it is the duty of the community to protect them from oppression, and to secure that every one of its members, who is willing and able to contribute honest and industrious work to the service of others, should be able in return to gain the means of a decent and civilised life. In this relation the establishment of a minimum wage is analogous to the restriction of hours or the provision for safety and health secured by Factory Legislation, and carries forward the provision for a minimum standard of life. The problem is to determine upon the minimum and adjust its enforcement to the conditions of trade in such wise as to avoid industrial dislocation and consequent unemployment.

With regard to workers of higher skill, who command wages or salaries on a more generous scale, the interest of the community is of a different kind. Such workers hardly stand in need of any

special protection. They are well able to take care of themselves, and sometimes through combination are, in fact, the stronger party in the industrial bargain. In this region the interest of the community lies in maintaining industrial peace and securing the maximum of goodwill and co-operation. The intervention of the community in industrial disputes, however, has never been very popular with either party in the State. Both sides to a dispute are inclined to trust to their own strength, and are only ready to submit to an impartial judgment when convinced that they are momentarily the weaker. Nor is it easy when we once get above the minimum to lay down any general principles which a court of arbitration could apply in grading wages.

For these reasons the movement for compulsory arbitration has never in this country advanced very far. We have an Industrial Court which can investigate a dispute, find a solution which commends itself as reasonable, and publish its finding, but without any power of enforcement. The movement has for the present stuck there, and is likely to take a long time to get further. Yet every one recognises the damage inflicted by industrial disputes, and would admit in the abstract the desirability of a more rational method of settlement than that of pitting combination against combination. Such a method may, I would suggest, grow naturally out of the system which has been devised for the protection of unskilled and unorganised workers, of which a brief account may now be given.

## THE ESTABLISHMENT OF TRADE BOARDS

Utilising experience gained in Australia, Parliament in 1909 passed an Act empowering the Board of Trade (now the Ministry of Labour) to establish a Trade Board in any case where the rate of wages prevailing in any branch was "exceptionally low as compared with that in other employments." The Board consisted of a number of persons selected by the Minister as representatives of employers, an equal number as representatives of the workers, with a chairman and generally two colleagues not associated with the trade, and known as the Appointed Members. These three members hold a kind of casting vote, and can in general secure a decision if the sides disagree.

No instruction was given in the statute as to the principles on which the Board should determine wages, but the Board has necessarily in mind on the one side the requirements of the worker, and on the other the economic position of the trade. The workers' representatives naturally emphasise the one aspect and the employers the other, but the appointed members and the Board as a whole must take account of both. They must consider what the trade in general can afford to pay and yet continue to prosper and to give full employment to the workers. They must also consider the rate at which the worker can pay his way and live a decent, civilised life. Mere subsistence is not enough. It is a cardinal point of economic justice that a well-organised society will enable a man to

earn the means of living as a healthy, developed, civilised being by honest and useful service to the community. I would venture to add that in a perfectly organised society he would not be able—charitable provision apart—to make a living by any other method. There is nothing in these principles to close the avenues to personal initiative or to deny a career to ability and enterprise. On the contrary, it is a point of justice that such qualities should have their scope, but not to the injury of others. For this, I suggest with confidence to a Liberal audience, is the condition by which all liberty must be defined.<sup>1</sup>

If we grant that it is the duty of the Boards to aim at a decent minimum—one which in Mr. Seebohm Rowntree's phrase would secure the "human needs" of labour—we have still some very difficult points of principle and of detail to settle. First and foremost, do we mean the needs of the individual worker or of a family, and if of the latter, how large a family? It has been generally thought that a man's wages should suffice for a family on the ground that there ought to be no economic compulsion—though there should be full legal and social liberty—for the mother to eke out deficiencies in the father's payment by going out to work. It has also been thought that a woman is not ordinarily under a similar obligation to maintain a family, so that her "human needs" would be met by a wage

<sup>1</sup> I may perhaps be allowed to refer to my *Elements of Social Justice*, Allen & Unwin, 1921, for the fuller elaboration of these principles.

sufficient to maintain herself as an independent individual.

These views have been attacked as involving a differentiation unfair in the first instance to women, but in the second instance to men, because opening a way to undercutting. The remedy proposed is public provision for children under the industrial age, and for the mother in return for her work in looking after them. With this subvention, it is conceived, the rates for men or women might be equalised on the basis of a sufficiency for the individual alone. This would certainly simplify the wages question, but at the cost of a serious financial question. I do not, myself, think that "human needs" can be fully met without the common provision of certain essentials for children. One such essential—education, has been long recognised as too costly to be put upon the wages of the worker. We may find that we shall have to add to the list if we are to secure to growing children all that the community would desire for them. On the other hand, the main responsibility for directing its own life should be left to each family, and this carries the consequence, that the adult-man's wage should be based not on personal but on family requirements.

#### WOMEN'S WAGES

But the supposed injustice to woman is illusory. Trade Boards will not knowingly fix women's rates at a point at which they can undercut men. Nor if women are properly represented on them will they fix their rates at a point at which women

will be discarded in favour of male workers. In industries where both sexes are employed, if the women workers are of equal value with the men in the eyes of the employer, they will receive equal pay ; if of less value, then, but only then, proportionately less pay. It is because women have received not proportionately but quite disproportionately less pay that they have been undercutting men, and the Trade Boards are—very gradually, I admit—correcting this error. For well-known historical reasons women have been at an economic disadvantage, and their work has secured less than its worth as compared with the work of men. The tendency of any impartial adjustment of wages is to correct this disadvantage, because any such system will attempt to secure equality of opportunity for employment for all the classes with which it is dealing. But it is admitted that there is a “lag” in women’s wages which has been but partially made good.

If the standard wage must provide for a family, what must be the size of the family? Discussion on the subject generally assumes a “statistical” family of man and wife and three children under age. This is criticised on the ground that it does not meet the human needs of larger families and is in excess for smaller ones. The reply to this is that a general rate can only meet general needs. Calculation easily shows that the minimum suited for three children is by no means extravagant if there should be but two children or only one, while it gives the bachelor or newly married couple some small chance of getting a little beforehand with



the world. On the other hand, it is impossible to cater on general principles for the larger needs of individuals. The standard wage gives an approximation to what is needed for the ordinary family, and the balance must be made good by other provision, whether public or private I will not here discuss. I conclude that for adult men the minimum is reasonably fixed at a figure which would meet the "human needs" of a family of five, and that for women it should be determined by the value of their services relatively to that of men.<sup>1</sup>

How far have Trade Boards actually succeeded in fixing such a minimum? Mr. Seebohm Rowntree has put forward two sets of figures based on pre-war prices, and, of course, requiring adjustment for the changes that have subsequently taken place. One of these figures was designed for a subsistence wage, the other for a "human needs" wage. The latter was a figure which Mr. Rowntree himself did not expect to see reached in the near future. I have compared these figures with the actual minima for unskilled workers fixed by the Boards during 1920 and 1921, and I find that the rates fixed are intermediate between the two. The subsistence rate is passed, but the higher rate not attained, except for some classes of skilled workers.

<sup>1</sup> I am assuming that this value is sufficient to cover the needs of the independent woman worker. If not, these needs must also be taken into account. As a fact both considerations are present to the minds of the Trade Boards. A Board would not willingly fix a wage which would either (a) diminish the opportunity of women to obtain employment, or (b) enable them to undercut men, or (c) fail to provide for them if living alone.

The Boards have in general proceeded with moderation, but the more serious forms of underpayment have been suppressed so far as inspection has been adequately enforced. The ratio of the female to the male minimum averages 57.2 per cent., which may seem unduly low, but it must be remembered that in the case of women's wages a much greater leeway had to be made good, and there can be little doubt that the increases secured for female workers considerably exceeded those obtained for men.

#### THE QUESTION OF A SINGLE MINIMUM

Criticism of Trade Boards has fastened on their power to determine higher rates of wages for skilled workers, one of the additional powers that they secured under the Act of 1918. There are many who agree that a bare minimum should be fixed by a statutory authority with legal powers, but think that this should be the beginning and end of law's interference. As to this, it must be said, first, that the wide margin between a subsistence wage and a human needs wage, brought out by Mr. Rowntree's calculations, shows that there can be no question at present of a single minimum. To give the "human needs" figure legislative sanction would at present be Utopian. Very few Trade Boards ventured so far even when trade was booming. The Boards move in the region between bare subsistence and "human needs," as trade conditions allow, and can secure a better figure for some classes of their clients when they

cannot secure it for all. They therefore need all the elasticity which the present law gives them.

On the other hand, it is contended with some force by the Cave Committee that it is improper for appointed members to decide questions of relatively high wages for skilled men or for the law to enforce such wages by criminal proceedings, and the Committee accordingly propose to differentiate between higher and lower minima both as regards the method of determination and of enforcement. I have not time here to discuss the details of their proposal, but I wish to say a word on the retention—if in some altered shape—of the powers given by the Act of 1918. The Trade Board system has been remarkable for the development of understanding and co-operation between representatives of employers and workers. Particularly in the work of the administrative committees, matters of detail which might easily excite controversy and passion are habitually handled with coolness and good sense in the common interest of the trade. A number of the employers have not merely acquiesced in the system, but have become its convinced supporters, and this attitude would be more common if certain irritating causes of friction were removed. The employer who desires to treat his workers well and maintain good conditions is relieved from the competition of rivals who care little for these things, and what he is chiefly concerned about is simplicity of rules and rigid universality of enforcement. It is this section of employers who have prevented the crippling of the Boards in a time of general reaction. It is

blindness to refuse to see in such co-operation a possible basis of industrial peace, and those were right who in 1918 saw in the mechanism of the Boards the possibility, not merely of preventing industrial oppression and securing a minimum living wage, but of advancing to a general regulation of industrial relations. At that time it was thought that the whole of industry might be divided between Trade Boards and Whitley Councils, the former for the less, the latter for the more organised trades. In the result the Whitley Councils have proved to be hampered if not paralysed by the lack of an independent element and of compulsory powers.

#### TRADE BOARDS HOLDING THE FIELD

The Trade Board holds the field as the best machinery for the determination of industrial conditions. It is better than unfettered competition, which leaves the weak at the mercy of the strong. It is better than the contest of armed forces, in which the battle is decided with no reference to equity, to permanent economic conditions, or to the general good, by the main strength of one combination or the other in the circumstances of the moment. It is better than a universal State-determined wages-law which would take no account of fluctuating industrial conditions, and better than official determinations which are exposed to political influences and are apt to ignore the technicalities which only the practical worker or employer understands. It is better than arbitration, which acts intermittently and incalculably from outside, and

makes no call on the continuous co-operation of the trade itself.

My hope is that as the true value of the Trade Board comes to be better understood, its powers, far from being jealously curtailed, or confined to the suppression of the worst form of underpayment, will be extended to skilled employments, and organised industries, and be used not merely to fulfil the duty of the community to its humblest members, but to serve its still wider interest in the development of peaceful industrial co-operation.

# UNEMPLOYMENT

BY H. D. HENDERSON

M.A. ; Fellow of Clare College, Cambridge ; Lecturer in Economics ; Secretary to the Cotton Control Board from 1917-1919.

MR. HENDERSON said :—From one point of view the existence of an unemployment problem is an enigma and a paradox. In a world, where even before the war the standard of living that prevailed among the mass of the people was only what it was, even in those countries which we termed wealthy, it seems at first sight an utterly astonishing anomaly that at frequent intervals large numbers of competent and industrious work-people should find no work to do. The irony of the situation cannot be more tersely expressed than in the words, which a man is supposed to have uttered as he watched a procession of unemployed men : “No work to do. Set them to rebuild their own houses.”

But, if we reflect just a shade more deeply, nothing should surprise us less than unemployment. We have more reason for surprise that it is usually upon so small a scale. The economic system under which we live in the modern world is very peculiar and only our familiarity with it keeps us from perceiving how peculiar it is. In one sense it is highly organised ; in another sense it is not organised at all. There is an elaborate differentiation of

functions—the “division of labour,” to give it its time-honoured name, under which innumerable men and women perform each small specialised tasks, which fit into one another with the complexity of a jig-saw puzzle, to form an integral whole. Some men dig coal from the depths of the earth, others move that coal over land by rail and over the seas in ships, others are working in factories, at home and abroad, which consume that coal, or in shipyards which build the ships; and it is obvious, not to multiply examples further, that the numbers of men engaged on those various tasks must somehow be adjusted, *in due proportions* to one another. It is no use, for instance, building more ships than are required to carry the stuff there is to carry.

Adjustment, co-ordination, must somehow be secured. Well, how is it secured? Who is it that ordains that, say, a million men shall work in the coal-mines, and 600,000 on the railways, and 200,000 in the shipyards, and so on? Who apportions the nation's labour power between the innumerable different occupations, so as to secure that there are not too many and not too few engaged in any one of them relatively to the others? Is it the Prime Minister, or the Cabinet, or Parliament, or the Civil Service? Is it the Trade Union Congress, or the Federation of British Industries, or does any one suppose that it is some hidden cabal of big business interests? No, there is no co-ordinator. There is no human brain or organisation responsible for fitting together this vast jig-saw puzzle; and, that being so, I say that what should really excite our wonder is the fact that that puzzle should

somehow get fitted together, usually with so few gaps left unfilled and with so few pieces left unplaced.

It would, indeed, be a miracle, if it were not for the fact that those old economic laws, whose impersonal forces of supply and demand, whose existence some people nowadays are inclined to dispute, or to regard as being in extremely bad taste, really do work in a manner after all. They are our co-ordinators, the only ones we have; and they do their work with much friction and waste, only by correcting a maladjustment after it has taken place, by slow and often cruel devices, of which one of the most cruel is, precisely, unemployment and all the misery it entails.

#### THE CAUSES OF TRADE DEPRESSIONS

I do not propose to deal with such branches of the problem of unemployment as casual labour or seasonal fluctuations. I confine myself to what we all, I suppose, feel to be the really big problem, to unemployment which is not special to particular industries or districts, but which is common to them all, to a general depression of almost every form of business and industrial activity. General trade depressions are no new phenomenon, though the present depression is, of course, far worse than any we have experienced in modern times. They used to occur so regularly that long before the war people had come to speak of cyclical fluctuations, or to use a phrase which is now common, the trade cycle. That is a useful phrase, and a useful conception. It is well that we should realise, when



we speak of those normal pre-war conditions, to which we hope some day to revert, that in a sense trade conditions never were normal; that, at any particular moment you care to take, we were either in full tide of a trade boom, with employment active and prices rising, and order books congested; or else right on the crest of the boom, when prices were no longer rising generally, though they had not yet commenced to fall, when employment was still good, but when new orders were no longer coming in; or else in the early stages of a depression, with prices falling, and every one trying to unload stocks and failing to do so, and works beginning to close down; or else right in the trough of the depression where we are to-day; that we were at one or other of the innumerable stages of the trade cycle, without any prospect of remaining there for very long, but always, as it were, in motion, going round and round and round.

What are the root causes which bring every period of active trade to an inevitable end? There are two which are almost invariably present towards the end of every boom. First, the general level of prices and wages has usually become too high; it is straining against the limits of the available supplies of currency and credit, and, unless inflation is to be permitted, a restriction of credit is inevitable which will bring on a trade depression. In those circumstances, a reduction of the general level of prices and wages is an essential condition of a trade revival. A reduction of prices *and wages*. That point has a significance to which I will return.

The second cause is the distorted balance which

grows up in every boom between different branches of industrial activity. When trade is good, we invariably build ships, produce machinery, erect factories, make every variety of what are termed "constructional goods" upon a scale which is altogether disproportionate to the scale upon which we are making "consumable goods" like food and clothes. And that condition of things could not possibly endure for very long. If it were to continue indefinitely, it would lead in the end to our having, say, half a dozen ships for every ton of wheat or cotton which there was to carry. You have there a maladjustment, which must be corrected somehow; and the longer the readjustment is postponed, the bigger the readjustment that will ultimately be inevitable. Now that means, first on the negative side, that, when you are confronted with a trade depression, it is hopeless to try to cure it by looking for some device by which you can give a general stimulus to all forms of industry. Devices of that nature may be very useful in the later stages of a trade depression, when the necessary readjustments both of the price-level and of the relative outputs of different classes of commodities have already been effected, and when trade remains depressed only because people have not yet plucked up the necessary confidence to start things going again. But in the early stages of a depression, an indiscriminating stimulus to industry in general will serve only to perpetuate the maladjustments which are the root of the trouble. It will only put off the evil day, and make it worse when it comes. The problem is not one of getting everybody back

to work on their former jobs. It is one of getting them set to work on the *right* jobs ; and that is a far more difficult matter.

On the positive side, what this really comes to is, that if you wish to prevent depressions occurring you must prevent booms taking the form they do. You must prevent prices rising so much, and so many constructional goods being made during the period of active trade ; and I am not going to pretend that that is an easy thing to do. It's all very well to say that the bankers, through their control of the credit system, might endeavour to guide industry and keep it from straying out of the proper channels. But the bankers would have to know much more than they do about these matters, and, furthermore, the problem is not merely a national one—it is a world-wide problem. It would be of little use to prevent an excess of ships being built here, if that only meant that still more ships were built, say, in the United States.

I do not say that even now the banks might not do something which would help ; still less do I wish to convey the impression that mankind must always remain passive and submissive, impotent to control these forces which so vitally affect his welfare. But I say that for any serious attempt to master this problem, the necessary detailed knowledge has still to be acquired, and the rudiments of organisation have still to be built up ; and the problem is not one at this stage for policies and programmes. What you can do by means of policies and programmes lies, at present, in the sphere of international politics. In that sphere,

though you cannot achieve all, you might achieve much. To reduce the problem to its pre-war dimensions would be no small result; and that represents a big enough objective, for the time being, for the concentration of our hardest thinking and united efforts. But into that sphere I am not going to enter. I pass to the problem of unemployment relief.

### THE SCALE OF RELIEF

The fundamental difficulty of the problem of relieving unemployment is a very old one. It turns upon what used to be called, ninety years ago, "the principle of less eligibility," the principle that the position of the man who is unemployed and receiving support from the community should be made upon the whole less eligible, less attractive than that of the man who is working and living upon the wages that he earns. That is a principle which has been exposed to much criticism and denunciation in these modern days. We are told that it is the false and antiquated doctrine of a hard-hearted and coarse-minded age, which thought that unemployment was usually a man's own fault, which saw a malingerer in every recipient of relief, which was obsessed by the bad psychology of pains and penalties and looked instinctively for a deterrent as the cure for every complex evil.

But, however that may be, this principle of less eligibility is one which you cannot ignore. It is not merely or mainly a matter of the effect on the character of the workmen who receive relief.

The danger that adequate relief will demoralise the recipient has, I agree, been grossly exaggerated in the past. Prolonged unemployment is always in itself demoralising. But, given that a man is unemployed, it will not demoralise him more than he should receive adequate relief rather than inadequate relief or no relief at all. On the contrary, on balance, it will, I believe, demoralise him less. For nothing so unfits a man for work as that he should go half-starved, or lack the means to maintain the elementary decencies of life.

But there are other considerations which you have to take into account. If you get a situation such that the man who loses his job becomes thereby much better-off than the man who remains at work, I do not say that the former man will necessarily be demoralised, but I do say that the latter man will become disgruntled. I do not want to put that consideration too high. At the present time there are many such anomalies; in a great many occupations, the wages that the men at work are receiving amount to much less than the money they would obtain if they lost their jobs and were labelled unemployed. But they have stuck to their jobs, they are carrying on, with a patience and good humour that are beyond all praise. Yes, but that state of affairs is so anomalous, so contrary to our elementary sense of fairness that, as a permanent proposition it would prove intolerable. We cannot go on for ever with a system under which in many trades men receive much more when they are unemployed than when they are at work. On the other hand, the attempt to avoid such

anomalies leads us, so long as we have a uniform scale of relief, against an alternative which is equally intolerable. Wages vary greatly from trade to trade ; and, if the scale of relief is not to exceed the wages paid in *any* occupation it must be very low indeed. That is the root dilemma of the problem of unemployment relief—how if your scale of relief is not to be too high for equity and prudence it is not to be too low for humanity and decency. We have not, as some people imagine, done anything in recent years to escape from it, we have merely exchanged one horn of the dilemma for the other.

In any satisfactory system the scale of relief must vary from occupation to occupation, in accordance with the normal standard of wages ruling in each case. But it is very difficult, in fact I think it would always be impracticable to do that under any system of relief, administered by the State, either the Central Government or the local authorities. It must be done on an industrial basis ; each industry settling its own scale, finding its own money, and managing its own scheme. That is an idea which has received much ventilation in the last few years. But the really telling arguments in favour of it do not seem to me to have received sufficient stress.

Foremost among them I place the consideration I have just indicated : that in this way, and in this way alone, it becomes possible for work-people who receive high wages when they are at work, and where habits of expenditure and standards of family living are built up on that basis, to receive

when unemployed, adequate relief without that leading to anomalies which in the long run would prove intolerable. But there are many other arguments.

#### A MODEL SCHEME FROM LANCASHIRE

About five years ago I had the opportunity of witnessing at very close quarters the working of an unemployment scheme on an industrial basis. The great Lancashire cotton industry was faced during the war with a very serious unemployment problem, owing to the difficulty of transporting sufficient cotton from America. It met that situation with a scheme of unemployment relief, devised and administered by one of those war Control Boards, which in this case was essentially a representative joint committee of employers and employed. The money was raised, every penny of it, from the employers in the industry itself; the Cotton Control Board laid down certain rules and regulations as to the scale of benefits, and the conditions entitling a worker to receive it; and the task of applying those rules and paying the money out was entrusted to the trade unions.

Well, I was in a good position to watch that experiment. I do not think I am a particularly credulous person, or one prone to indulge in easy enthusiasms, and I certainly don't believe in painting a fairy picture in glowing colours by way of being encouraging. But I say deliberately that there has never been an unemployment scheme in this country or in any other country which has

worked with so little abuse, with so few anomalies, with so little demoralisation to any one, and at the same time which has met so adequately the needs of a formidable situation, or given such general satisfaction all round as that Cotton Control Board scheme.

I cannot describe as fully as I should like to do the various features which made that scheme attractive, and made it a success. I will take just one by way of illustration. It is technically possible in the cotton trade to work the mills with relays of workers, so that if a mill has 100 work-people, and can only employ 80 work-people each week, the whole 100 can work each for four weeks out of the five, and "play off," as it is called, in regular sequence for the fifth week. And that was what was done for a long time. It was called the "rota" system; and the "rota" week of "playing off" became a very popular institution. Under that system, benefits which would have been far from princely as the sole source of income week after week—they never amounted to more than 30/- for a man and 18/- for a woman—assumed a much more liberal aspect. For they came only as the occasional variants of full wages; and they were accompanied not by the depressing circumstances of long-continued unemployment, but by what is psychologically an entirely different and positively exhilarating thing, a full week's holiday. That meant that the available resources—and one of the difficulties of any scheme of unemployment relief is that the resources available are always limited—did much more to prevent misery and



distress, and went much further towards fulfilling all the objects of an unemployment scheme than would have been possible otherwise.

That system was possible in the cotton trade ; in other trades it might be impossible for technical reasons, or, where possible, it might in certain circumstances be highly undesirable. The point I wish to stress is that under an industrial scheme you have an immense flexibility, you can adapt all the details to the special conditions of the particular industry, and by that means you can secure results immeasurably superior to anything that is possible under a universal State system. Moreover, if certain features of the scheme should prove in practice unsatisfactory, they can be altered with comparatively little difficulty. You don't need to be so desperately afraid of the possibility of making a mistake as you must when it is a case of a great national scheme, which can only be altered by Act of Parliament.

#### THE MORAL OBLIGATION OF INDUSTRIES

I do not underrate the difficulty of applying this principle of industrial relief over the whole field of industry. There is the great difficulty of defining an industry, or drawing the lines of demarcation between one trade and another. I have not time to elaborate those difficulties, but I consider that they constitute an insuperable obstacle to anything in the nature of an Act of Parliament, which would impose forcibly upon each industry the obligation to work out an

unemployment scheme. The initiative must come from within the industry; the organisations of employers and employed must get together and work out their own scheme, on their own responsibility and with a free hand. And, if it happens in this way—one industry taking the lead and others following—these difficulties of demarcation become comparatively unimportant. You can let an industry define itself more or less as it likes, and it does not matter much if its distinctions are somewhat arbitrary. It is not a fatal drawback if some firms and work-people are left outside who would like to be brought in. And if there are two industries which overlap one another, each of which is contemplating a scheme of the kind, it is a comparatively simple matter for the responsible bodies in the two industries to agree with one another as to the lines of demarcation between them, as was actually done during the war by the Cotton Control Board and the Wool Control Board, with practically no difficulty whatever. But for such agreements to work smoothly it is essential that the industries concerned should be anxious to make their schemes a success; and that is another reason why you cannot impose this policy by *force majeure* upon a reluctant trade. It is in the field of industry that the real move must be made.

But I think that Parliament and the Government might come in to the picture. In the first place, the ordinary national system of unemployment relief, which must in any case continue, might be so framed as to encourage rather than to discourage

the institution of industrial schemes. Under the Insurance Act of 1920 "contracting out" was provided for, but it was penalised, while at the present moment it is prohibited altogether. I say that it should rather be encouraged, that everything should be done, in fact, to suggest that not a legal but a moral obligation lies upon each industry to do its best to work out a satisfactory unemployment scheme. And, when an industry has done that, I think the State should come in again. I think that the representative joint committee, formed to administer such a scheme, might well be endowed by statute with a formal status, and certain clearly-defined powers—such as the Cotton Control Board possessed during the war—of enforcing its decisions.

But—and, of course, there is a "but"—we cannot expect very much from this in the near future. We must wait for better trade conditions before we begin; and, as I have already indicated, the prospects of really good trade in the next few years are none too well assured. For a long time to come, it is clear, we must rely upon the ordinary State machinery for the provision of unemployment relief; and, of course, the machinery of the State will always be required to cover a large part of the ground. The liability which an industry assumes must necessarily be strictly limited in point of time; and there are many occupations in which it will probably always prove impracticable for the occupation to assume even a temporary liability. For the meantime, at any rate, we must rely mainly upon the State machinery. Is it possible to improve upon

the present working of this machinery? I think it is. By the State machinery I mean not merely the Central Government, but the local authorities and the local Boards of Guardians.

#### THE PRESENT MACHINERY OF RELIEF

At present what is the situation? Most unemployed work-people are entitled to receive certain payments from the Employment Exchanges under a so-called Insurance scheme, which is administered on a national basis; some weeks they are entitled to receive those payments, other weeks they are not; but in any case those payments afford relief which is admittedly inadequate, and they are supplemented—and very materially supplemented—by sums varying from one locality to another, but within each locality on a uniform scale, which are paid by the Boards of Guardians in the form of outdoor relief. Now that situation is highly unsatisfactory. The system of outdoor relief and the machinery of the Guardians are not adapted for work of this kind. They are designed to meet the problem of individual cases of distress, not necessarily arising from unemployment, but in any event individual cases to be dealt with, each on its own merits, after detailed inquiry into the special circumstances of the case. That is the function which the Guardians are fitted to perform, and it is a most important function, which will still have to be discharged by the Guardians, or by similar local bodies, whatever the national system

of unemployment relief may be. But for dealing with unemployment wholesale, for paying relief in accordance with a fixed scale and without regard to individual circumstances—for that work the Guardians are a most inappropriate body. They possess no qualification for it which the Central Government does not possess, while they have some special and serious disqualifications.

In any case, it is preposterous that you should have two agencies, each relieving the same people in the same wholesale way, the Employment Exchanges with their scale, asking whether a man is unemployed, and how many children he has to support, and paying him so much, and the Guardians with their scale, asking only the same questions and paying him so much more. It would obviously be simpler, more economical, and more satisfactory in every way, if one or other of those agencies paid the man the whole sum. And I have no hesitation in saying that that agency should be the Central Government. Perhaps the strongest argument in favour of that course is that, when relief is given locally, the money must be raised by one of the worst taxes in the whole of our fiscal system, local rates, which are tantamount to a tax, in many districts exceeding 100 per cent., upon erection of houses and buildings generally. It is foolish to imagine that any useful end is served by keeping down taxes at the expense of rates.

Serious as is the problem of national finance, the fiscal resources of the Central Government are still far more elastic and less objectionable than those

which the local authorities possess. I suggest, accordingly, as a policy for the immediate future, the raising of the scale of national relief to a more adequate level, coupled with the abolition of what I have termed wholesale outdoor relief in the localities. What it is right to pay on a uniform scale should be paid entirely by the Central Government, and local outdoor relief should be restricted to its proper function of the alleviation of cases of exceptional distress after special inquiries into the individual circumstances of each case.

One final word to prevent misconception. I have said that our present system of relief is unsatisfactory, and I have indicated certain respects in which I think it could be improved. But I am far from complaining that relief is being granted throughout the country as a whole upon too generous a scale. Anomalies there are which, if they continued indefinitely, would prove intolerable. But we have been passing through an unparalleled emergency. Unemployment in the last two years has been far more widespread and intense than it has ever been before in modern times, and never was it less true that the men out of work have mainly themselves to blame. But it has meant far less distress, far less destruction of human vitality, and I will add far less demoralisation of human character than many of the bad years we had before the war. That is due to the system of doles, the national and local doles; and in the circumstances I prefer that system with all its anomalies to the alternative of a substantially

lower scale of relief. We are still in the midst of that emergency; and if we are faced, as I think for this decade we must expect to be faced, with that dilemma which I indicated earlier, I should prefer, and I hope that every Liberal will prefer, to err by putting the scale of relief somewhat too high for prudence and equity rather than obviously too low for humanity and decency.

# THE PROBLEM OF THE MINES

BY ARNOLD D. McNAIR

M.A., LL.M., C.B.E.; Fellow of Gonville and Caius College, Cambridge; Secretary of Coal Conservation Committee, 1916-1918; Secretary of Advisory Board of Coal Controller, 1917-1919; Secretary of Coal Industry Commission, 1919 (Sankey Commission).

MR. McNAIR said :—Need I labour the point that there *is* a problem of the Mines? Can any one, looking back on the last ten years, when time after time a crisis in the mining industry has threatened the internal peace and equilibrium of the State, deny that there is something seriously wrong with the present constitution of what our chairman has described as this great pivotal industry? What is it that is wrong? If I may take a historical parallel, will you please contrast the political situation and aspirations of the working-class population at the close of the Napoleonic wars with their industrial situation and aspirations now. Politically they were a hundred years ago unenfranchised; more or less constant political ferment prevailed until the Reform Bill, and later, extensions of the franchise applied the Liberal solution of putting it within the power of the people, if they wished it, to take an effective share in the control of political affairs.

Industrially, their situation to-day is not unlike their political situation a hundred years ago. Such



influence as they have got is exerted almost entirely outside the constitution of industry, and very often in opposition to it. Their trade unions, workers' committees, councils of action, triple alliances, and so forth, are not part of the regular industrial machine, and too often are found athwart its path. They are members of an industry with substantially no constitutional control over it, just as a hundred years ago they were members of a State whose destinies they had no constitutional power to direct.

This does not mean that a hundred years ago every working man wanted the political vote, nor that now he wants to sit on a committee and control his industry. It meant that a substantial number of the more enlightened and ambitious did—a large enough number to be a source of permanent discontent until they got it. The same is true to-day in the case of many industries. Many men in all classes of society are content to do their job, take their money, go home and work in their gardens, or course dogs or fly pigeons. They are very good citizens. Many others, equally good citizens, take a more mental and active interest in their job, and want to have some share in the direction of it. This class is increasing and should not be discouraged. They constitute our problem. The Liberal solution of a gradually extended franchise has cured the political ferment. Political controversy is still acute, and long may it remain so, as it is the sign of a healthy political society. But the ugly, ominous, revolutionary features of a hundred years ago in the sphere of politics have

substantially gone or been transferred to the industrial sphere.

### THE LIBERALISATION OF INDUSTRY

The same solution must be applied to that sphere. This does not mean transferring the machinery of votes and elections to industry. It means finding channels in industry whereby every person may exercise his legitimate aspiration, if he should feel one, of being more than a mere routine worker while still perhaps doing routine work, and of contributing in an effective manner his ideas, thoughts, suggestions, experience, to the direction and improvement of the industry. We have satisfied the desire for self-expression as citizens, and we have now to find some means of satisfying a similar desire for self-expression as workers in industry. That is all very vague. Does it mean co-partnership, profit-sharing, co-operative societies, joint committees, national wages boards, guild socialism, nationalisation? It may mean any or all of these things—one in one industry, one in another, or several different forms in the same industry—whatever experiment may prove to be best suited to each industry. But it must mean opportunity of experiment, and experiment by all concerned. It must mean greater recognition by employers of their trusteeship on behalf of their work-people as well as their shareholders; greater recognition of the public as opposed to the purely proprietary view of industry; and recognition that the man who contributes his manual skill and

labour and risks his life and limb is as much a part of the industry as a man who contributes skill in finance, management, or salesmanship, or the man who risks his capital.

Coming to the mines, that is, the coal mining industry (with a few incidental mines such as stratified ironstone, fireclay, etc., which need not complicate our argument), the first step to the solution of the problem of the mines, *i.e.* the collieries, the mining industry, is the solution of the problem of the minerals. This distinction is not at first sight obvious to all, but it is fundamental. The ownership and leasing of the coal is one thing, the business or industry of mining it is quite another. State ownership of the former does not involve State ownership of the latter. That is elementary and fundamental. It lies at the root of what is to follow.

Will you picture to yourself a section of the coal-mining industry in the common form of the pictures one sees of an Atlantic liner cut neatly in two so as to expose to view what is taking place on each deck. On top you have the landowner, under the surface of whose land coal, whether suspected or not, has been discovered. He may decide to mine the coal himself, but more frequently—indeed, usually—he grants to some persons or company a lease to mine that coal on payment of what is called a royalty of so much for every ton extracted. Thereupon he is called the mineral-owner or royalty-owner, and the persons or company who actually engage in the business or industry of coal mining and pay him the royalties we shall call the

colliery-owners. Do not be misled by the confusing term "coal-owners." Very frequently the colliery-owners are called the "coal-owners," and their associations "coal-owners' associations." That is quite a misnomer. The real *coal*-owner is the landowner, the royalty-owner, though it may well happen that the two functions of owning the minerals and mining them may be combined in the same person. Below the colliery-owners we find the managerial staff; below them what may be called the non-commissioned officers of the mine, such as firemen or deputies, who have most important duties as to safety, and below them the miners as a whole, that is, both the actual coal-getters or hewers or colliers and all the other grades of labour who are essential to this the primary operation.

### THE QUESTION OF ROYALTIES

Coming back to the royalty-owner, you will see his functions are not very onerous. He signs receipts for his royalties and occasionally negotiates the terms of a lease. But as regards the coal-mining industry, he "toils not, neither does he spin." I do not say that reproachfully, for he (and his number has been estimated at 4000) is doubtless a good husband, a kind father, a busy man, and a good citizen. But as regards this industry he performs no essential function beyond allowing the colliery-owners to mine his coal.

What is the total amount annually paid in coal royalties? We can arrive at an approximate

estimate in this way: Average output of coal for five years before the war, roughly, 270,000,000 tons; average royalty,  $5\frac{1}{2}$ d. per ton, which means, after deducting coal for colliery consumption and the mineral rights duty paid to the State by the royalty-owner, roughly £5,500,000 per annum paid in coal royalties. Regarding this as an annuity, the capital value is 70 millions sterling if we allow a purchaser 8 per cent. on his money (12.5 years' purchase), or  $55\frac{1}{2}$  millions sterling if we allow him 10 per cent. (10 years' purchase). For all practical purposes the annuity may be regarded as perpetual.

Now the State must acquire these royalties. That is the only practicable solution, and a condition precedent to any modification in the structure of the coal-mining industry so long as the participants in that industry continue unwilling or unable to agree upon those modifications themselves. *Why and how?* (1) First and foremost because until then the State is not master in its own house, and cannot make those experiments in modifying conditions in the industry which I believe to be essential to bring it into a healthy condition instead of being a standing menace to the equilibrium of the State—as it was before the war, and during the war, and has been since the war; (2) the technical difficulties and obstacles resulting from the ownership of the minerals being in the hands of several thousand private landowners and preventing the economic working of coal are enormous. You will find abundant evidence of this second statement in the testimony given by Sir Richard Redmayne and the late Mr. James Gemmell

and others before the Sankey Commission in 1919.

How is the State to acquire them? Not piecemeal, but once and for all in one final settlement, by an Act of Parliament providing adequate compensation in the form of State securities. The assessment of the compensation is largely a technical problem, and there is nothing insuperable about it. It is being done every day for the purpose of death duties, transfer on sale, etc. Supposing, for the sake of argument,  $55\frac{1}{2}$  millions sterling is the total capital value of the royalties, an ingenious method which has been recommended is to set aside that sum not in cash but in bonds and appoint a tribunal to divide it equitably amongst all the mineral-owners. That is called "throwing the bun to the bears." The State then knows its total commitments, is not involved in interminable arbitrations, and can get on with what lies ahead at once, leaving the claimants to fight out the compensation amongst themselves. This does not mean that the State will have to find  $55\frac{1}{2}$  millions sterling in cash. It means this, in the words of Sir Richard Redmayne: "The State would in effect say to each owner of a mineral tract: The value of your property to a purchaser is in present money  $\pounds x$ , and you are required to lend to the State the amount of this purchase price at, say, 5 per cent. per annum, in exchange for which you will receive bonds bearing interest at that rate in perpetuity, which bonds you can sell whenever you like."

The minerals or royalties being acquired by the State, what then? For the first time the State

would be placed in a strategic position for the control and development of this great national asset. Having acquired the minerals and issued bonds to compensate the former owners, the State enters into the receipt of the royalty payments, and these payments will be kept alive. We must now decide between at least two courses: (a) Is the State to do nothing more and merely wait for existing leases to expire and fall in, and then attach any new conditions it may consider necessary upon receiving applications for renewals? Or (b) is the State to be empowered by Parliament to determine the existing leases at any time and so accelerate the time when it can attach new conditions, make certain re-grouping of mines, etc.? My answer is that the latter course (b) must be adopted. The same Act of Parliament which vests the coal and the royalties in the State, or another Act passed at the same time, should give the State power to determine the then existing leases if and when it chooses, subject to just compensation for disturbance in the event of the existing lessees refusing to take a fresh lease.

Why is course (b) recommended? (i) Most leases are granted for terms varying from thirty to sixty years. They are falling in year by year, but we cannot afford to wait until they have all fallen in if we are effectively to deal with a pressing problem. (ii) The second objection to merely waiting is that some colliery-owners (not many) might make up their minds not to apply for a renewal of their leases, and might consequently be tempted to neglect the necessary development and maintenance

work, over-concentrating on output, and thus allowing the colliery to get into a backward state from which it would cost much time and money to recover it—a state of affairs which could and would be provided against in future leases, but which the framers of existing leases may not have visualised. I do not suggest that upon the acquisition by the State of the minerals all the existing leases should automatically determine. But the State should have power to determine them on payment of compensation for disturbance.

#### A NATIONAL MINING BOARD

At the same time a National Mining Board consisting of representatives of all the interested elements, colliery-owners, managerial and technical staffs, miners, and other grades of workers, and coal consumers would be formed (the Mines Department already has a National Advisory Committee); the mining engineering element must be strongly represented, and provision must be made for first-class technical advice being always available. It would then be the business of the National Mining Board to work out its policy and decide upon the broad principles which it wishes to weave into the existing structure of the coal-mining industry by means of its power of granting leases. The following principles will readily occur to most people, and are supported by evidence which is, in my humble judgment, convincing, given before the various commissions and committees which have inquired into this industry during recent years.



Firstly, More Amalgamation or Unification of Collieries. At present there are about 3000 pits owned by about 1500 companies or individuals, and producing an aggregate output of about 250 million tons per annum. Already there have been many large amalgamations. (i) Many fortunately situated small pits making a good profit will be found, but on the whole small collieries are economically unsound. In many cases at present the units are too small, having regard to the class of work being done, to the cost of up-to-date machinery and upkeep and to the variableness of the trade. Broadly I believe it to be true that the larger collieries are as a general rule more efficient than the smaller ones. (ii) In respect of co-operation in pumping, larger units would frequently make for efficiency and reduced cost ; Sir Richard Redmayne, speaking of South Staffordshire before the Sankey Commission, said that we had already lost a large part of that coalfield through disagreement between neighbouring owners as to pumping. (iii) The advantages of larger units in facilitating the advantageous buying of timber, ponies, rails, machinery and the vast amount of other materials required in a colliery will be obvious to most business men.

I do not propose to chop up the coalfields into mathematical sections and compulsorily unify the collieries in those sections. I am merely laying down the broad principle that to get the best out of our national asset the National Mining Board must bring about through its power of granting leases the formation of larger working units than

at present usually exist. The geological and other conditions in the different coalfields vary enormously, and these form a very relevant factor in deciding upon the ideal unit of size. It is conceivable that in certain districts all the colliery-owners in the district, with the aid of the National Mining Board, would form a statutory company on the lines of the District Coal Board, described in the Report made by Sir Arthur Duckham as a member of the Sankey Commission. One advantage accruing from unification (to which recent events have given more prominence) is that it mitigates the tendency for the wages of the district to be just those which the worst situated and the worst managed colliery can pay and yet keep going, and no more. This tendency seems to be recognised and mitigated in the Agreement of June, 1921, on which the mines are now being worked. Secondly, Provision for Progressive Joint Control, that is, for enabling all the persons engaged in the mining industry either in money, in brains, or in manual labour, or a combination of those interests, gradually to exercise an effective voice in the direction of their industry.

Some of the arguments for this principle appear to me to be (i) that, as indicated in my opening remarks, a sufficiently large number of the manual or mainly manual workers in the industry ardently desire a progressively effective share in the control of the industry ; (ii) that this desire is natural and legitimate, having regard to the great increase in the education of the workers and the improvement in their status as citizens, and that so far from

being repressed it should be encouraged ; (iii) that it is the natural development of the system of Conciliation Boards and (occasionally) Pit Committees which has prevailed in the industry for many years, though more highly developed in some parts of the country than others. So far, these organs have been mainly used for purposes of consultation and negotiation ; the time has come when with a more representative personnel, while not usurping the functions of a mine manager or, on a larger scale, the managing director, they must be developed so as to exercise some effective share in controlling the industry. (iv) While working conditions are not so dangerous and unpleasant as the public are sometimes asked to believe, the workers in this industry are exposed to an unusually high risk of injury and loss of life, and thus have a very direct interest in devising and adopting measures for increased safety. These measures nearly always mean expenditure, and thus an increased cost of working, and so long as their adoption (except in so far as made compulsory by the Mines Department) rests solely with bodies on which capital alone is represented and labour not at all, there will be fruitful cause for suspicion and discontent. The miners are apt to argue that dividends and safety precautions are mutually antipathetic, and will continue to do so as long as they have no part or lot in the reconciliation of these competing obligations. The question is not whether this argument of the miners is well-founded or not : the point is that their suspicion is natural, and any excuse for it should be removed. (v) The

exceptionally large items which wages form in the total cost of coal production indicates the important contribution made by the miners to the welfare of the industry and justifies some share in the direction of that industry.

Upon the basis of typical pre-war years, the value of the labour put into the coal mining industry is 70 per cent. of the capital employed, and 70 per cent. of the annual saleable value of the coal, and yet this large labour interest has no share in the management of the industry.

#### THE MYSTERY AS TO PROFITS

Thirdly, More Financial Publicity. Secrecy as to profits, which always suggests that they are as large as to make one ashamed of them, has been the bane of the coal-mining industry. For nearly half a century wages have borne some relation to *selling prices*, and there have been quarterly audits of typical selected mines in each district by joint auditors appointed by the owners and the miners. But over *profits* a curtain was drawn, except in so far as the compulsory filing at Somerset House by public companies of a document called a Statement in the form of a balance sheet, enabled the curious to draw not very accurate conclusions. It is not easy for the plain man to read a balance sheet or estimate profits, especially when shares are being subdivided, or when bonus shares are being issued, or large sums carried to reserve. The result has been continual and natural suspicion on the part

of the miners, who doubtless imagined the colliery-owners' profits to be much larger than they were. The miners knew that whenever they asked for an increase in their wages they were liable to be told that such an increase would turn a moderate profit into a substantial loss, but the amount of the profit they had to take on trust. Selling prices, yes, but profits, no.

The war and coal control partly killed that, and it must not return. By the settlement of June, 1921, for the first time the miners have established the principle of the adjustment of their wages in accordance with the proceeds of the industry "as ascertained by returns to be made by the owners, checked by a joint test audit of the owners' books carried out by independent accountants appointed by each side." That is an important step, but does not go anything like far enough.

At least two good results would accrue if colliery-owners conducted their business more in public: (i) a great deal of the suspicion and mistrust of the miners would be removed, and they would realise why and when their wages must undergo fluctuations, and the value of the many other factors besides wages which went to make up the pit-head cost of coal; (ii) publicity coupled with *costing returns* would make it possible to draw comparative conclusions as to the cost of production in different mines and districts, which would be a fruitful source of experiment and improvement. Publicity does not involve publication of lists of customers, British or foreign.

## THE LESSEES OF THE FUTURE

How far will the lessees to whom the National Mining Board will grant leases to work the coal be the same persons and companies as the present lessees? In this matter it is desirable to maintain the maximum amount of flexibility and variety. I do not think we have yet discovered the ideal unit, the ideal organisation for the development of our principal national asset. So much do our coalfields differ in geological formation, in tradition, in the subdivision and classification of labour, in outlet for trade, that it is unlikely that any single unit or organisation will be the ideal one for every coalfield. So we must resist any attempt, especially an early attempt, at stereotyping or standardising the type of lessee. By trial and error we shall learn much.

All the following types of lessee seem likely, sooner or later, to demand the attention of the National Mining Board. (I shall not touch on the question of distribution, inland and export. That is another and quite separate question):—

(i) *The Present Lessees.*—I see no reason to doubt that in the vast majority of cases the present lessees would be prepared to continue to operate their mines, paying royalties to the State instead of to the present royalty-owner. Where the unit is sufficiently large and the management efficient, the National Mining Board would probably grant a fresh lease, incorporating such conditions as to unification, joint control, and publicity as they

might consider necessary. If the present lessees do not want the lease, there are others who will.

(ii) *Larger Groups*.—In a great many cases, however, the Board would decline to grant separate leases in respect of each of a number of small collieries, and would indicate that they were only prepared to receive applications for leases by groups of persons or companies prepared to amalgamate themselves into a corporation representing an output of x tons *per annum*. This figure would vary in each coalfield. In South Staffordshire, in particular, divided ownership has had most prejudicial effects in the matter of pumping.

(iii) *District Coal Boards*.—Sir Arthur Duckham's scheme of statutory companies known as District Coal Boards requires consideration. Without necessarily adopting his districts or his uniformity of type throughout the country, there are many areas where it might be found that voluntary amalgamation was impracticable, and that the desired result could only be attained by an Act of Parliament providing for the compulsory amalgamation of persons and companies working a specified area and the issue of shares in the new corporation in exchange for the previous holdings.

(iv) *Public Authorities*.—I should very much like to see, sooner or later, in some area, a lessee in the form of an organisation which, though not national—not the State—should be at any rate public—something on the lines of the Port of London Authority.

It may well be that in one or more of our coalfields a public authority of this type, though with larger labour representation upon it and with a

large measure of joint control from top to bottom, would be a suitable lessee of the minerals in that area. The important point is that public management need not mean bureaucratic State-management with the disadvantages popularly associated with it.

(v) I have mentioned several types of possible lessees, but it will be noticed that there is nothing in these suggestions which would prevent the National Mining Board from making the experiment of working a few mines themselves.

To sum up. There *is* a problem of the Mines. No sensible person should be deceived by the quiescence of the last twelve abnormal months. Without using extravagant language, the coal-mining industry is a volcano liable at any moment to erupt and involve the whole community in loss and suffering. Therefore, as a body of citizens, we are under a duty to seek a solution which can be effected between the occurrence of the recurring crises. As a body of Liberal citizens we shall naturally seek a Liberal solution, and the foregoing suggestions (for which no originality is claimed) are inspired by the Liberal point of view. They apply to the industrial sphere principles which have been tried and proved in the political sphere, both in the central and the local government. Apart from State acquisition of the minerals, about which there can surely be no question, these suggestions merely develop tendencies and organisations already existing within the industry. They involve no leap in the dark, such as has been attributed by some to nationalisation of the whole



industry, and they provide for great flexibility and experimentation. The fact that the official spokesmen of neither miners nor colliery-owners may like them need not deter us. They have had numerous opportunities of settling the problem amongst themselves, but the "die-hards" in both camps have always prevented it. It is time that the general public outside the industry took the matter in hand and propounded a solution likely to be acceptable to the vast body of sensible and central feeling within the industry.

# THE LAND QUESTION

BY A. S. COMYNS CARR

Member of Acquisition of Land Committee, 1918.

MR. COMYNS CARR said :—The Land Question I believe to be the most important subject in purely domestic politics to-day, as it was in 1914. At that date we were embarking, under the especial leadership of one who has now deserted us, upon a comprehensive campaign dealing with that question in all its aspects. The present Government has filled a large portion of the Statute Book with legislation bearing on the land ; it is not the quantity we have to complain of, but the quality. In 1914 we had already achieved one signal victory in carrying against the House of Lords the Land Clauses of the Budget of 1909-10, and although many of us were never satisfied with the form which those clauses took, they were valuable both as a step in the direction of land taxation and for the machinery of valuation which they established. Mr. Lloyd George in his present alliance with the Tories has sunk so low as not only to repeal those clauses, but actually to refund to the landlords every penny which they have paid in taxation under them.

The campaign which was inaugurated in 1913 did not deal with the question of taxation only,

and for my part, although I am an enthusiast on this branch of the subject, I have never thought that other aspects should be neglected. We put forward proposals for dealing with leases both in town and country. The present Government has carried and repealed again a series of statutes dealing with agriculture. Their original policy was to offer to the farmer guaranteed prices for his produce, if necessary at the expense of the tax-payer, and to the labourer guaranteed wages, to be fixed and enforced by Wages Boards. Before this policy was fully in operation it was repealed. The farmer got some cash compensation for his losses; the labourer has got nothing but voluntary Conciliation Boards, with no power to do more than pass pious resolutions. There has, however, survived this welter of contradictory legislation, a series of clauses which do confer upon the tenant farmer a substantial part of the rights in his dealings with his landlord for which we were agitating in 1914. The town lease-holder, on the other hand, has got nothing, and it is one of the first duties of the Liberal Party to provide him with security against the confiscation of his improvements and goodwill, to give him reasonable security of tenure, and to put an end once for all to the pestilent system of building leases which extends all over London and to about half the other towns of England. The evils of this system are especially to be found in those older parts of our great cities where the original leases are drawing to a close. In such cases a kind of blight appears to settle on whole neighbourhoods, and no improvements can be

carried out by either party because the landlord cannot obtain possession, and the tenant has not, and is unable to obtain, a sufficient length of term to make it worth his while to risk his capital upon them.

### HOUSING

The branch of the land question to which the Government called the greatest attention in their election promises was Housing. On this subject the Government have placed many pages of legislation on the Statute Book. One can only wish that the houses occupied as much space. They began by informing us, probably accurately, that up to the time of the Armistice there was an accumulated shortage of 500,000 houses; in pre-war days new working-class houses were required, and to a certain extent provided, although the shortage had then already begun, to an average number of 90,000 a year. According to the official figures in July last, 123,000 houses had been completed by Local Authorities and Public Utility Societies; 37,000 by private builders with Government subsidies; 36,000 were under construction, and as the Government have now limited the total scheme (thereby causing the resignation of Dr. Addison, its sponsor) there remain 17,000 to be built. This is the record of four years, so clearly the Government have not even succeeded in keeping pace with the normal annual demand, and the shortage has not been attacked, but actually accentuated.

The cause of the failure was mainly financial.

Without attacking the roots of the evil in our land and rating system, and without attempting to control the output and supply of materials and building in the way in which munitions were controlled during the war, the Government brought forward gigantic schemes to be financed from the supposedly bottomless purse of the tax-payer. At the same time the demand for building materials and labour in every direction was at its maximum, and unfortunately both employers and employed in the building and allied industries took the fullest advantage of the position to force up prices without regard to the unfortunate people who wanted houses. The Trade Unions concerned seem to have overlooked the fact that if wages were raised and output reduced houses would become so dear that their fellow-workmen who needed them could not attempt to pay the rents required, and the tax-payer would revolt against the burdens imposed upon him; thus the golden era for their own trade was bound to come to a rapid end, and, so far from employment being increased and prolonged, unemployment on a large scale was bound to result. With the Anti-Waste panic and the Geddes Axe, social reform was cut first, and, in their hurry to stop the provision of homes for heroes, the Government is indulging in such false economies as leaving derelict land acquired and laid out at enormous cost, even covering over excavations already made, and paying out to members of the building trade large sums in unemployment benefit, while the demand for the houses on which they might be employed is left wholly unsatisfied.

## LAND FOR PUBLIC PURPOSES

The Acquisition and Valuation of Land for the purpose of public improvements is a branch of the question to which a great deal of attention was drawn during and immediately after the war. The Government appointed a Committee, of which the present Solicitor-General was chairman, and which, in spite of a marked scarcity of advanced land reformers amongst its members, produced a series of remarkably unanimous and far-reaching recommendations. These recommendations dealt with four main topics:—

(a) Improvements in the machinery by which powers may be obtained by public and private bodies for the acquisition of land for improvements of a public character ;

(b) Valuation of land which it is proposed to acquire ;

(c) Fair adjustment as between these bodies and the owners of other land, both of claims by owners for damage done by the undertaking to other lands, and of claims by the promoting bodies for increased value given by their undertaking to other lands ; and

(d) The application of these principles to the special subject of mining.

The Government in the Acquisition of Land Act, 1919, has adopted a great part of the Committee's recommendations under the second head, and this Act has undoubtedly effected an enormous improvement in the prices paid by public bodies

for land which they require, although, most unfortunately, the same immunity from the extortion of the land-owner and the land speculator has not been extended to private bodies such as railway companies who need land for the improvement of public services. Moreover, it has not attempted to bring the purchase price of land into any relation with its taxing valuation.

The whole of the rest of the Committee's recommendations dealing with the other three points which I have mentioned, the Government has wholly ignored. Powers for public development can still only be obtained by the slow, costly and antiquated processes in vogue before the war ; private owners of lands adjoining works of a public character are still in a position to put into their own pockets large increases in value due to public improvements to which they have contributed nothing, and which they may even have impeded ; the development of minerals is still hampered by the veto of unreasonable owners, by the necessity of leaving unnecessary barriers between different properties, and by other obstacles which were dealt with in detail in the Committee's report. An illustration of the importance of this aspect of the question was put before the Committee and has been emphasised by recent events. It was stated on behalf of the railway companies that they were prepared with schemes for the extension of their systems in various parts of the country, which would not only provide temporary employment for a large number of men on construction, and permanent employment to a smaller number on the working

of the lines, but would also open up new residential and industrial districts, but that it was impossible for them to find the necessary funds unless they could have some guarantee that at least any loss upon the cost of construction would be charged upon the increased value of land in the new districts which would be created by the railway extensions. Remarkable instances were given of the way in which the value of land had been multiplied many-fold by the promotion of new railways, which, nevertheless, had never succeeded in paying a dividend to their shareholders, and the capital cost of which had been practically lost.

On the other hand, the Committee were assured that, given a charge on the increased value of land likely to be created, there would be no difficulty in obtaining the necessary funds without Government assistance. When the pressure of the unemployment problem became acute, and not before—and then it was, of course, too late—the Government turned their attention to this problem, and have guaranteed the interest upon new capital to be expended on a few of these railway extensions, but instead of charging the guarantee upon the increased value of land, they have charged it upon the pocket of the tax-payer. The most striking instance is that of the tube railway from Charing Cross to Golders Green, now being extended under Government guarantee to Edgware. Those who provided the original capital have never received any return upon their money, yet millions have been put into the pockets of the owners of what was undeveloped land now served



by the line, and now that the extension is being carried out with the tax-payers' guarantee, the land-owners will again reap the benefit untaxed.

The development of the natural resources of our country was one of the promises held out by Mr. Lloyd George to the electors in 1918. Schemes were ready, and are still in the official pigeon-holes, for the production of electricity on a very large scale both from water power and from coal, which would not only provide employment, but cheapen the cost of production in all our industries. France, Italy, and other countries are at this moment carrying out similar schemes whereby they will relieve themselves to a large extent from dependence on British coal. But here, four years of Coalition Government have left us practically where we were. In France, although in many respects her social system seems to me less enlightened than our own, the power of the land-owner to obstruct enterprise and development is by no means so great. Land Reform in this country is a necessary preliminary to the fulfilment of Mr. Lloyd George's promises. Development at the public expense without such reforms will result chiefly in further burdens upon the tax-payer and further enrichment of the landowner.

#### RATING RELIEF FOR IMPROVEMENTS

This brings me to the last, and in my opinion the most important branch of the Land Question, that relating to the reform of our system of rating and taxation. I am myself an ardent supporter of the policy which I think has been rather unfortunately

named the Taxation of Land Values. The vital point about this policy is not so much that we should tax land values, as that we should leave off taxing buildings and other improvements of land. The policy would be better described as the Relief of Improvements from Taxation. Its economic merits seem to me so obvious as hardly to require examination. It is only because the present system has been in force for over 300 years that it can find any supporters. If any one were to propose as a useful means of encouraging the steel trade or the boot trade, or as a desirable method of taxation, that a tax of, say, 50 per cent. should be imposed upon the value of every ton of steel or every pair of boots turned out in our factories, he would be rightly and universally denounced as a lunatic. Yet this is the system which ever since the days of Queen Elizabeth has been in force with regard to the building trade and all other industries which result in the production of improvements upon land.

As long as land remains unused it pays no rates or taxes, whatever its immediate potential value. But the moment it is brought into use, as soon as a house, a factory, or a railway is built upon it, or it is drained or planted—rates and taxes, which in these days often exceed 50 per cent. of its improved value, have to be paid, without regard even to the question whether its use is successful in yielding profits or not. Familiarity with this system, instead of breeding the contempt which it deserves, has bred a kind of passive acquiescence which is exceedingly difficult to shake. Even such a champion

of our land system as the Duke of Bedford years ago in his book, *The Story of a Great Agricultural Estate*, perceived the absurdity, although he was apparently blind to the remedy and to the application of it to some of his estates which are not agricultural. He converted an ordinary arable field into a fruit garden, and discovered that his rates were promptly trebled by reason of his expenditure. Striking, but, nevertheless, everyday examples may be found if we see how the system works out in urban districts. If a new factory is built, rates and taxes are immediately levied on the full annual value of the building, which is a direct charge upon production, and has to be paid before a single person can be employed in the factory. It therefore not only restricts the possibilities of employment, but has to be added to the price at which the goods can be sold.

#### THE LESSON OF THE SLUMS

Or take the illustration of a slum area. Each tumble-down tenement is rated and taxed on the assessment based upon its annual rental value. In many places in the central parts of towns the total of these assessments is less than the sum for which the whole site could be sold as a building area, nevertheless if all the tenements fall or are pulled down the site may remain vacant for years and no rates or taxes are paid. But if substantial and decent buildings are erected on the site, immediately the assessment is raised to their full annual value. The individual or public body that

has cleared away the slum and erected something decent in its place is thus immediately punished for doing so, with the result that such a thing is seldom done except at the public expense. The remedy for all these absurdities is quite a simple one. No one disputes that the sums necessary for municipal and imperial taxation have got to be provided. The question is, in so far as they are to be raised from lands and buildings, how can they be assessed most fairly and with the least injury to trade and commerce? They should be assessed upon the value of land which is not due to any effort of the owner or occupier; they should not be assessed upon nor increased because of any buildings which he may have erected or any improvements which he may have carried out.

This question was closely investigated by the Land Enquiry Committee appointed by Mr. Lloyd George in 1913. They were unanimous in condemning the existing system and in regarding the one which I have just described as the ideal. They were, however, met by great difficulties in its immediate practical application, because, owing to the long prevalence of the wrong system, an immediate and total change would bring about rather startling alterations in the value of existing properties. The Committee closely considered these objections, and a number of alternative methods of bringing the change into operation gradually and without these drastic changes in value were put forward. The one which immediately suggested itself as the simplest, and from many points of view the most desirable, was to leave the rates and

taxes of existing properties on their present basis, to impose them at their present rate on the annual value of all unoccupied land, but to exempt from rates and taxes all future buildings and improvements of every kind.

To illustrate the way in which this would work, let us revert to the case of a block of slum property. As long as it remained in its present condition the existing valuation based upon the annual rent obtainable for it would apply, but any parts of it which now are or may hereafter become unoccupied, would, instead of escaping as they do now from all rates and taxes, contribute on the basis of the value of their sites, which would be assessed at an annual rent for the purpose of comparison with the existing valuations, at least until the capital values of the whole rating area could be ascertained. If any improvements were carried out the assessments would not be raised on that account, as they would be under present conditions, and if a whole area were pulled down, replanned and rebuilt, the assessment instead of being based, as it would be to-day, on the annual value of the reconstructed property, would be based upon the site value alone. Gradually in this way site value would become the prevalent basis of assessment. "It is obvious," as the Committee said in 1913, "that unrating of future improvements is from the economic point of view of far more importance than the unrating of existing improvements; if we want to encourage new buildings and new improvements, what is really important is to ensure that new improvements (not old ones)

shall be exempt from the burden of rates." The Committee were, however, compelled to reject this suggestion at that time on the ground that "it would cause an unfair differentiation between the man who had already put up buildings or improvements, and the man who put up buildings or improvements after the passing of the Act." But as between buildings and improvements which existed before the war and those which come into existence under post-war conditions no such unfairness could operate, because the increase in the cost of building even to-day is greater than the benefit which would accrue from the unrating of improvements. The present is therefore the unique opportunity for bringing into force this much-needed reform in the most effective way, free from the difficulties which had to be met in 1913. If it had been carried out immediately after the Armistice it would, in my opinion, have done more than anything else to solve the housing problem, and even now it is not too late. In fact, in view of the present unemployment it would be most opportune. Incidentally it would soon render unnecessary the renewal of the Rent Restriction Act. I understand that something on these lines has been introduced in New York to meet a similar problem.

#### A RATE AND A TAX UPON SITE VALUES

The Committee of 1913 were obliged to turn their attention to other suggestions. They proposed :

- (a) That all future increases in the expenditure

of each Local Authority which had to be met out of rates should be met by a rate upon site values instead of upon the existing assessments; and

(b) That existing expenditure should be met to a small extent compulsorily, and to a larger extent at the option of the Local Authority, in the same manner.

There is no reason why these proposals should not be brought into force simultaneously with that relating to new buildings and improvements. They made these proposals conditional upon a substantial increase in the grants in aid to Local Authorities, especially in necessitous areas, from the Imperial Exchequer; and they suggested, although they did not definitely recommend, that a part at least of this increased grant might be raised by means of an additional tax upon site values. This, I think, should certainly be done, and such a tax might be wholly or partially substituted for the present Land Tax and Income-Tax Schedule A, which are assessed on the wrong basis.

These proposals would, of course, involve the revival and revision of the National Land Valuation established by the Finance Act, 1909-10, which should be made the basis of all taxation and rating relating to real property. This would be both a reform and an economy, because there are at present several overlapping systems of valuation by Central and Local Authorities, none of which are really satisfactory even on the present unsatisfactory basis of assessment. The existence of such a valuation frequently revised and kept up to date, and independent of local influences, would be

invaluable not only for purposes of rating and taxation, but also in arriving at a fair price for the acquisition of land for public purposes, and for the levying of special charges upon the increased value due to particular public improvements, such as railway extensions, with which I have already dealt.

I am not one of those who claim for these reforms that they would cure all the evils from which the community is at present suffering, but I do believe that there is no other and no better way of removing the unfairness and the restrictions of our present methods of rating and taxation or of setting free and stimulating the energies of our people in the development of the resources of our country.



# AGRICULTURAL QUESTIONS

BY RT. HON. F. D. ACLAND

P.C. ; M.P. (L.) North-West Cornwall ; Financial Secretary, War Office, 1908-10 ; Under-Secretary of State for Foreign Affairs, 1911-15 ; Financial Secretary to Treasury, Feb.-June, 1915 ; Secretary to the Board of Agriculture, 1915-16 ; a Forestry Commissioner. Chairman of the Agricultural Organisation Society.

MR. ACLAND said :—I begin by laying down in a didactic form five points which one would like to see firmly established in our rural life : (i) intensive production ; (ii) plenty of employment at good wages ; (iii) easy access to land, and a good chance of rising upon the land ; (iv) real independence in rural life ; (v) co-operative association for many purposes.

Intensive production is most important. It is so easy to say the farmer *can* get more out of the land, and the farmer *should* get more out of the land, that we are tempted to continue and say that the farmer *must be made* to get more out of the land. But it isn't so easy. It has been tried and failed, and when any subject in our British political life has been brought up to the boiling-point, and yet nothing effective has been done, it is extremely difficult to bring it to the boil a second time.

It is worth while tracing out what has actually happened. The Government's Agriculture Act of 1921 contained four great principles :—(i) that

we must have more food produced in this country (a) as an insurance against risk of war, (b) so as to meet our post-war conditions as a debtor nation by importing less of our food supplies; (ii) that as the most productive farming is arable farming, and as by maintaining a proper proportion of arable we can on emergency make ourselves independent for our food supplies for an indefinite time, farmers should be guaranteed against loss on their arable rotations; (iii) that if farmers are to be required to produce more they must have clear legal rights to farm their land in the most productive way, a greater compensation for disturbance; (iv) that as the first three principles give security to the nation and to the farmer, it is desirable also to give security to the worker by permanently continuing the war-time system of Agricultural Wages Boards.

These principles were duly embodied in the Bill as it left the House of Commons:—

(i) The Ministry of Agriculture, acting through the County Agricultural Committees, was given powers to insist on a certain standard of arable cultivation, as well as in minor matters, such as control of weeds and of rabbits;

(ii) The difference between the ascertained market price and the estimated cost of production on his wheat and oat acreage was guaranteed to the farmer, the guarantee not to be altered except after four years' notice;

(iii) The landlord had to forfeit a year's rent if a tenant was disturbed except for bad farming, or four years' rent if the disturbance was capricious;

(iv) The existing Wages Board system was continued.

### THE DESTRUCTION OF A POLICY

The gradual destruction of this policy began in the House of Lords. They allowed themselves to be swept away by the popular cry against Government interference with industry, and cut out the power of control of cultivation. The Prime Minister had said that this was an absolutely essential part of the Bill, and of the Government's policy, but the Government quietly and characteristically accepted the Lords' amendment and the Bill was passed.

Then troubles began. Other industries began to ask why the Government satisfied agriculture and not them, and as the Government could not plead their control of agriculture in justification, no real reply was possible. Also the cold fit came on as regards national expenditure. The Bill for the corn subsidies threatened to be very high. Though Europe was starving, it could not buy, so cheap American grain flooded our markets; but cost of production here was still at its peak, and, for oats especially, the amount to be paid to the farmer threatened to be large. It was realised that it might cost 25-30 millions to implement the guarantees for the first year, and perhaps 10-12 millions a year later. In short, the guarantees had to go. Instead of four years' notice of any change, a Bill to repeal the great Act was introduced five months after it had been passed. And it was unfortunately part of the bargain with the farmers who received

for the single season perhaps six or eight millions less than they might have been entitled to under the Act, that the Wages Boards should be abolished—and they were. There remained of the original structure only the depreciation of the value of all agricultural landowners' property by about one-twentieth, owing to the extra compensation for disturbance.

Every one felt that they had been had, and they had been. The industry which had lately been talked up and made much of was dumped into the dustbin. The farmers had lost their guarantees, on the strength of which, in many cases, they had bought their farms dear or planned their rotations. The labourers, who particularly needed the protection of Wages Boards during a time of fall in cost of living and unemployment, had lost all legal protection. The landlords, willing enough to give what was asked of them if any national purpose was to be served, found that their loss brought no corresponding national gain. Agriculture retired as far as it could from any contact with perfidious Governments, to lick its wounds.

That is not a good basis upon which to build intensive cultivation or any other active policy. There being now no legal or patriotic call to intensive production, we are driven back to ask, "Does intensive production pay?" and the broad answer is that at a time of low prices it does not. There is no doubt that slowly and steadily education will gradually improve farming, and that farmers will learn to find out what parts of their business pay best and to concentrate upon them. There is also

no doubt that even at low prices there is plenty of scope for better farming, and that better manuring, particularly of grass land, will pay. But the farmer is faced with an economic principle—the law of diminishing returns. It may be stated thus: beyond a certain point which rises and falls directly with the value of the product, extra doses of labour and manure do not give a corresponding return. It is this principle which accounts for what we see everywhere—that farmers are tending to economise as much as they can on their labour and to let arable land go back to grass.

And if this is clear to farmers who are thinking of intensive arable farming, still more is it true in comparing arable with grass. If you take the same sort of quantity of arable and grass farms, farmed by men of the same skill and diligence, over a range of seasons under low world prices for farm produce, you will, I believe, find something like this: grass land needs half the capital and one-third of the labour of arable; it produces three-quarters the receipts with half the payments, and yields double the profit per acre and four times the profit on capital. The moral of all this is clear. Unless the nation is willing to go back to protection for agriculture, which I am glad to believe in the general interest unthinkable, and unless it is willing to guarantee the farmer against loss from that method of agriculture which means most production and most employment, we must let the farmer set the tune and farm in the way it best suits him to farm. We must try, in fact, not to talk too much nonsense about intensive production as the cure

for agricultural depression. It is useful to remember that all countries overseas which combine high wages with agricultural prosperity have a very low output per acre judged by our standards.

#### EMPLOYMENT AND WAGES

It follows directly from what I have just said that a time of high costs and low prices like the present, like the time of lower costs but still lower prices of the late '80's and early '90's, is not a favourable time for expecting employment to be brisk or wages high. And reasons other than those which we have yet considered make the farmer feel his labour to be specially burdensome at present. He finds that the prices he gets on the average are one and one-third times what they were before the war: what he has to buy costing from one and a half to one and two-thirds what it cost before the war; and he is expected in very many counties in England and Wales to pay his workers about double what he paid before the war. This is a strong point for him. But the labourers' position is just as strong. "I was not sufficiently well paid before the war. If this is to be recognised in any way at all, I must at the present cost of living (1885) have double my pre-war wages." It is certainly beyond all question that 30/- a week, which is the present wage over a large part of England, is not, even with only 3/- a week rent for house and garden, enough to keep a man and his wife and family in a state of real efficiency. Yet I know from personal experience that this fact is not properly recognised

in practice. If one tries to pay more one is regarded as a very rich man, and an extremely stupid one—an idea erroneous as to one's wealth and possibly exaggerated as to one's mentality.

How have the two conflicting views of farmer and labourer been reconciled in practice. I can only say that so far as my own knowledge extends—bearing in mind that the farmer has not the business man's habit of cheerfully setting off a bad year against a good (for the business man knows that trade must improve some time, and then he will make profits, while the farmer has no certainty that things will improve)—things might well have been worse. There has been a good deal of mutual consideration and desire to make the best of difficult circumstances. I have, however, little doubt that it would have been better had the Wages Boards, which had controlled the rise in wages during the rise in the cost of living, regulated the fall in wages during its fall—relaxing control perhaps later when things became more stable.

The reason why I think that things might have been worse is that the District Wages Committee left a good legacy to the voluntary Conciliation Committees which followed them—the men serving on the latter were those who under the Wages Board system had learned to negotiate with and to know and respect the workers—generally some of the best farmers in their districts—and they genuinely tried not to let the workers down with too much of a bump; on the other hand, they knew that the only value their recommendations could have was that they should be voluntarily

observed, and therefore they took care not to recommend rates higher than those which the least favourably situated farmers in the district could manage to pay—which meant rates lower than many might have been willing to give. This means that any general rate agreed to voluntarily will be rather on the low side. But I would rather have a rate which is generally observed, even if it is rather low, than that every farmer should be a law unto himself. If there is no recognised standard, and one man with impunity pays a lower rate than his neighbours, other rates also tend to come down, and then the process begins over again.

Looking to the future, the only thing that I can say with any certainty about the wages question is that it needs very careful watching. Let us be sure first of our principle, that the first charge on land, as on any other industry, should be a reasonable standard of living for the workers. Then let us be sure of the fact that there is over a very large part of England and Wales no certain prospect of an improvement in the condition of the labourer compared with conditions ten years ago. The dangers to be feared are that in the present lamentable weakness of the men's unions large sections of farmers may break away from the recommendations of their leaders; and that if depression continues and war savings become depleted farmers will tend to push wages down in self-preservation. These things must be watched. If the general condition of agriculture improves without a corresponding improvement in the workers' condition, or if conditions get worse and the brunt of the burden



is transferred to the labourer, we ought to be prepared to advocate a return to the old Wages Boards or the adoption of a Trade Board system. It must, I think, be a cardinal point of our Liberal faith that though it is better to leave industrial questions to be adjusted as much as possible by the parties concerned in the industry, the State must be ready to step in in any case in which the workers have not developed the power by their own combination to secure reasonable conditions and prospects. It is to the prospects that I now turn.

#### ACCESS TO THE LAND

I mean by this that there should be as many chances as possible for men and women who have an inclination for country pursuits to take up cultivation of the soil ; the freest opportunity for experiment in making a living out of the land ; and good chances for those who have started on the land ladder to rise to the top of it.

The three things which stand in the way are :—

- (i) The cost of building and equipment ;
- (ii) The practice under which the cultivator provides all the movable capital ;
- (iii) The handicap on free use of land imposed upon its owners by the compensation clauses of the Agriculture Act.

These obstacles do real harm, in the first place, because a very large proportion of farms in this country are the wrong size : too large for a man to work with his hands, and too much for him to work with his head, as Sir Thomas Middleton has

well said. Figures show quite conclusively that whether you take production per acre or production per man, the farm of from 100 to 150 acres is economically the worst-sized unit. Probably more than half of our farms lie between 70 and 100 acres. We should get far more out of the land if all were either below 80—so that a man and his family could manage them—or above 180, so that there would be a chance of applying to production the most scientific methods and up-to-date machinery.

But movement, either towards breaking up existing holdings or throwing them together, will be extremely slow. The one process means building new houses and buildings, which is prohibitive in price; and the other, also fresh building and the abandonment of hearths and homes, which is prohibited both by price and by sentiment. Any change in either direction is almost prohibitive to the new poor landowner class, because if one makes any change, except when a tenant dies or moves of his own accord, one forfeits a year's rent.

I have not yet mentioned the difficulty about capital. Under our British method, if a man wants a farm he must have capital—about £10 per arable acre and about £5 for grass. This is a great bar to freedom of experiment and the greatest bar on the way up the agricultural ladder. There ought to be free access to our farms by town brains, which can often strike out new and profitable lines if given a chance. It is not good for agriculture, and it does not promote that sympathy and contact and interchange which should exist between town and country, that a start in farming should need

a heavy supply of capital. If our landlords were better off they might well try some of the continental systems, under which the landlord provides not only the farm and buildings, but the stock and equipment, and receives in addition to a fair rent for the land half the profits of the farm. But it is vain to hope for this under present conditions, and, for good or ill, the newly rich does not buy land. He knows too much, and he can get what he wants without it. He may lease a house, he does take shooting, but he won't buy an estate.

When thinking of the importance of freedom of experiment and of a ladder with no missing rungs, I have my mind on the possibility of the owner of one estate of from 5,000 to 10,000 acres throwing all the farms and many of the fields together and making his best tenants fellow-directors with him of a joint enterprise, one doing the buying and selling, one looking after the power and the tractors and implements, one planning the agricultural processes, one directing the labour and so on. This gives a prospect of the greatest production and the greatest profit, and it gives a really good labourer a chance which at present he has not got. At present, unless he leaves the land, in nine cases out of ten once a labourer always a labourer. My vision would give him a chance to become, first, foreman, then assistant manager, manager, director, and managing-director. It ought to be tried—but how one's tenants would loathe it, and quite natural too! At present if things go wrong, if it's not the fault of the Government or the weather, it's the farmer's own fault. On my joint-stock estate

every director and manager would feel that all his colleagues were letting him down and destroying his profits. It is hard to make people accept at all readily, in practice, the teaching that they are their brothers' keeper.

The scheme could hardly be started with men accustomed to the present methods, and the cost of obtaining vacant possession of land would make it difficult to try with new men. I am sure, however, that something of the sort is a good and hopeful idea, and the best way of making the ladder complete. And I am emboldened to think that something of the sort will be tried gradually in some places, when I see the number of landlords' sons who are in this and other universities taking the best courses they can get in the science and economics of agriculture. They know this is the only way to retain a remnant of the old acres. It is quite new since the war—and a most hopeful sign.

#### INDEPENDENCE

I need not urge the importance in our villages of real independence of life. It was the absence of independence combined with long working hours and little occupation for the hours of leisure, which, more than low wages, caused the pre-war exodus from the country. Should the prospects of industry improve, but agriculture remain depressed, there will be another exodus from the country-side of the best of the young men who have come back to it after the war. It is of first-class importance, both from the national and from the agricultural

point of view, that they should stay, for there was a real danger before the war that agriculture might become a residual industry, carried on mainly by them, too lethargic in mind and body to do anything else.

In a preface which he wrote to Volume I of the Land Report, as chairman of Lloyd George's Land Inquiry Committee (it seems a long time ago now that Lloyd George was a keen land reformer), my father sketched out the idea of setting up commissions to report parish by parish in each county, in the same way that commissions have reported on the parochial charities. They would record how the land was distributed, whether the influence of the landowners told for freedom or against it, whether there was a chance for the labourer to get on to the land and to mount the ladder. Whether there was an efficient village institute, whether there were enough allotments conveniently situated, whether the cottagers were allowed to keep pigs and poultry, and what the health and housing were like.

It is a good idea, and should be borne in mind. I confess I do not know enough to know whether it is now as desirable as it seemed to be before the war. I would fain hope not, but I am not sure. I believe that there is a good deal more real independent life in the villages now than there was ten years ago. There are, I think, now fewer villages like some in North Yorkshire before the war, in which the only chance for a Liberal candidate to have a meeting was to have it in the open-air, after dark on a night with no moon, and even then he needed

a big voice—for his immediate audience was apt to be two dogs and a pig. Now, it seems to me that people like having political meetings going on, but do not bother to listen to any of them.

As to the present, there has been lately, within my knowledge, a great building of village institutes. There has been a tremendous development of football. Village industries, under the wise encouragement of the Development Commission, are reviving. Motor buses make access to town amusements much easier, and cinemas come out into the village. There is revived interest and very keen competition in the allotment and cottage garden shows. Thus it is, at any rate, down our way—but no one can know more than his own bit of country. On these and similar matters we ought to think and watch and meet together to report and discuss. We need more Maurice Hewletts and Mrs. Sturge Grettons to tell us how things really are, for nothing is so difficult to visualise as what is going on slowly in one's own parish.

#### CO-OPERATION

I come lastly to co-operation. You will think me biased when I speak of its possibilities. I am. I have been for eighteen years on the governing body of the Agricultural Organisation Society, and happen now to be its chairman, and am therefore closely in touch with the work of organising co-operative effort. One sees fairly clearly how difficult it is to make any class of English agriculturists combine for any mutual purpose, how worth

while it is, and what almost unexpected opportunities of useful work still exist. Thanks largely to untiring work by Sir Leslie Scott—who gave up the chairmanship of the society on his recent appointment as Solicitor-General—the country is now fairly covered by societies for purchasing requirements co-operatively—principally fertilisers, feeding-stuffs, and seeds. There are also affiliated to the movement I have mentioned, many useful co-operative auction marts, slaughter-house societies, bacon factories, wool societies, egg and poultry societies, and fruit and garden produce societies (but not nearly enough), besides a thousand or so societies of allotment holders which, thanks largely to our friend, George Nicholls, set all the others an example in keenness and loyalty to their parent body.

The *ideal* is that where a society exists the main raw materials of the industry shall be bought wholesale instead of retail, and the main products of the industry sold retail instead of wholesale; that thereby middlemen's and other profits shall be reduced to a reasonable figure, and that the consumer shall get the most efficient possible service with regard to his supplies. It is also the ideal that farmers and others shall learn more comradeship and brotherhood; that the big and small men alike shall become one community bound together for many common purposes, and that thus the cultivators of the soil shall lose that isolation and selfishness which is a reproach against them. The ideal is, however, not always realised. The farmer likes to have a co-operative society to

keep down other people's prices, but, having helped to form a society, he does not see why he should be loyal to it if a trader offers him anything a shilling a ton cheaper. A good committee is formed, but the members think they hold their offices mainly in order to get first cut for themselves at some good bargain the society has made, and they start with the delusion that they are good men of business. Things, therefore, get into the hands of the manager, and it is astonishing how much more quickly a bad manager can lose money than a good one can make it. And if in these and other ways it is uphill work with farmers' societies, the work is still more uphill with small-holders. It is the breath of their nostrils to bargain individually, and if a society is started they will only send their stuff to be sold when they and every one else have a glut, ungraded and badly packed—and then they grumble at getting a low price.

But all co-operative work is abundantly worth while. And the field of co-operation is not limited to the purchase of supplies or the sale of produce. It ought to cover the use of tractors and threshing sets and the installation and distribution of power. And if agriculture gets a chance of settling down to a moderate amount of stability and prosperity, it would not be beyond the bounds of hope that part, at any rate, of the profits of co-operative enterprise should be used to develop the amenities of the common life of the community—to provide prizes for the sports and the flower show—the capital to start an industry for the winter evenings, and even seats for the old people round the village green.



Times are not propitious for increasing the productivity of our land, excepting by the slow processes of education—which work particularly slowly in agriculture. Nor are they immediately propitious for raising the workers' standard of life, though we should never leave go of this as an essential. But many of us can, if we will, help a good man to start on the land, or help a man who has made good on the land to do better. Many of us can help to develop real independence of life in the villages and, through co-operation, those kindly virtues of friendliness and helpfulness to others and willingness to work for common ends which are sometimes not so common as they might be. And those who *can* do any of these things *should*, without waiting for legislation—for the legislator is a bruised reed.

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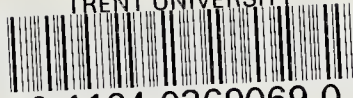
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